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31 March 2023

MALAYSIA EQUITY



Another GFC in the making?

2QCY23 OUTLOOK

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

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EXECUTIVE SUMMARY

1QCY23 IN BRIEF

- Global indices generally saw positive performance in 1QCY23 but concerns on banks almost undone it.
- FBM KLCI have been a laggard since the first month. One of the main drivers for the underperformance of the FBM KLCI was the reversal of interest in the financial sector and, industrial product and services sector.
- We have observed somewhat of a two-tiered market in Malaysia in 1QCY23. While FBM KLCI underperformed, FBM 70 and FBM Small Caps rose +2.1% and +0.9% YTD respectively.

ANOTHER GFC IN THE MAKING?

- Global growth is projected to moderate after the second year of post-pandemic recovery, but latest PMI readings suggest there has been stabilization in global production activities.
- Although there are signs of easing price pressures as inflation has started to trend down, there is still concern that inflation will remain elevated.
- The banking sector problem in the US and Europe had caused growing fears that the economy will be hit by the instability in the banking sector. However, regulators reacted quickly and managed to ward off negative trickle-down effects to other sectors.
- At current juncture, it appears the USD interbank market thus far remains sanguine the fallout on overall banking system would be contained, i.e., no imminent systemic distress anticipated.
- For now, the recovery in the market suggests the recent turmoil was short-lived.
- The Fed also hinted that 2023 will likely be the end of the rate increases because the FOMC learned that the recent banking turmoil also led to tightening of financial condition.
- Considering the external headwinds, global financial market uncertainties and tightening monetary policy in many economies, Malaysia's GDP growth is expected to moderate to +4.2% in 2023.

FBM KLCI 2023 TARGET AT 1,590

- In 2QCY23, we reckon the ongoing developments in regard the banking situation are expected to dominate investors' attention and influence market sways.
- However, we are maintaining our GDP growth target for Malaysia while at corporate earnings level, the consensus is still expecting FBM KLCI earnings for this year to register double-digit percentage growth.
- At PER23 of 12.8, the FBM KLCI is currently trading at depressed valuation.
- However, we expect the market valuation to revert higher in due course supported by (1) macro and corporate earnings growth, (2) end of interest rate tightening cycle, and (3) no systemic distress in the banking sector.
- We maintain our FBM KLCI end-2023 target at 1,590 points or PER23 of 14.5x.
- Also, we introduce our FBM70 end-2023 target at 15,000 points or PER23 of 17.5x.

31 March 2023

KLCI (30/3/2023) : 1,424.61
2023 TARGET : 1,590.00

SECTOR VIEW

POSITIVE	
Automotive	Banking
Construction	Consumer
Healthcare	Media
Oil & Gas	REITs
Technology	
NEUTRAL	
Plantation	Power
Property	Telecommunication
Transportation	
NEGATIVE	
Glove	

TOP BUYS

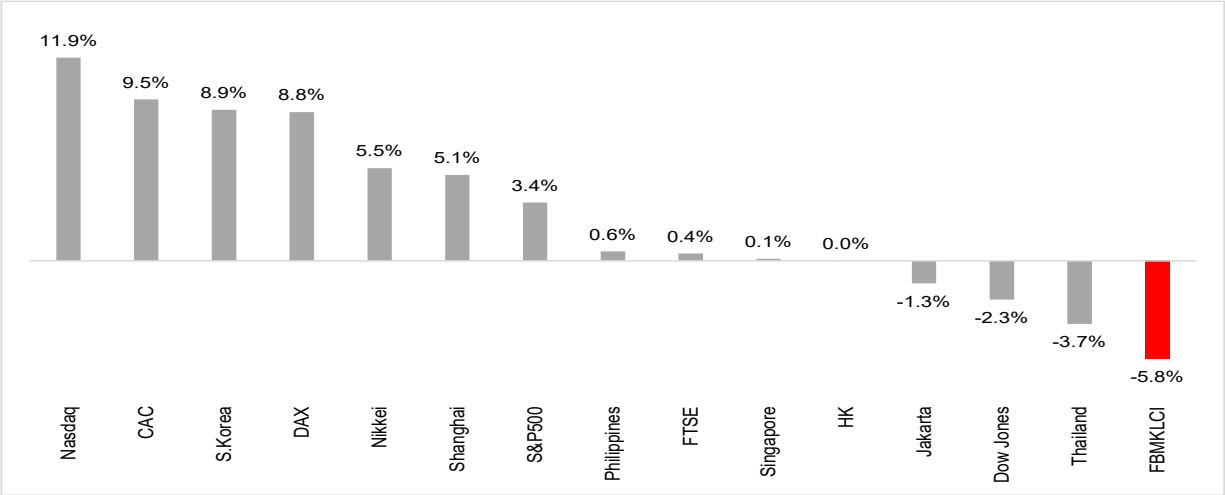
STOCK	Target Price (RM)	Total Return (%)
AEON Co.	1.90	49.5%
PPB Group	24.10	45.8%
Dialog Group	3.28	44.4%
UMW Holdings	5.28	42.9%
Fraser & Neave	33.50	34.1%
Public Bank	5.08	33.5%
Bumi Armada	0.80	30.3%
Inari Amertron	3.00	29.5%
QL Resources	6.80	17.8%
Sunway REIT	1.73	13.9%

A. MARKET PERFORMANCE

I. MARKET PERFORMANCE

January-effect boosted 1QCY23 global stock market performance. Global indices generally saw positive performance in 1QCY23 (as of 28 March 2023). After a dire year, US Nasdaq rebounded (+11.9%) to be the best performing market in the first quarter. It is not surprising as investors refocus towards the pivot by the US Fed. Much of the positive performance in global markets came in January as optimism was built in.

Chart 1: Comparison of Performance of FBMKLCI and Peers (YTD as at 28 March 2023)



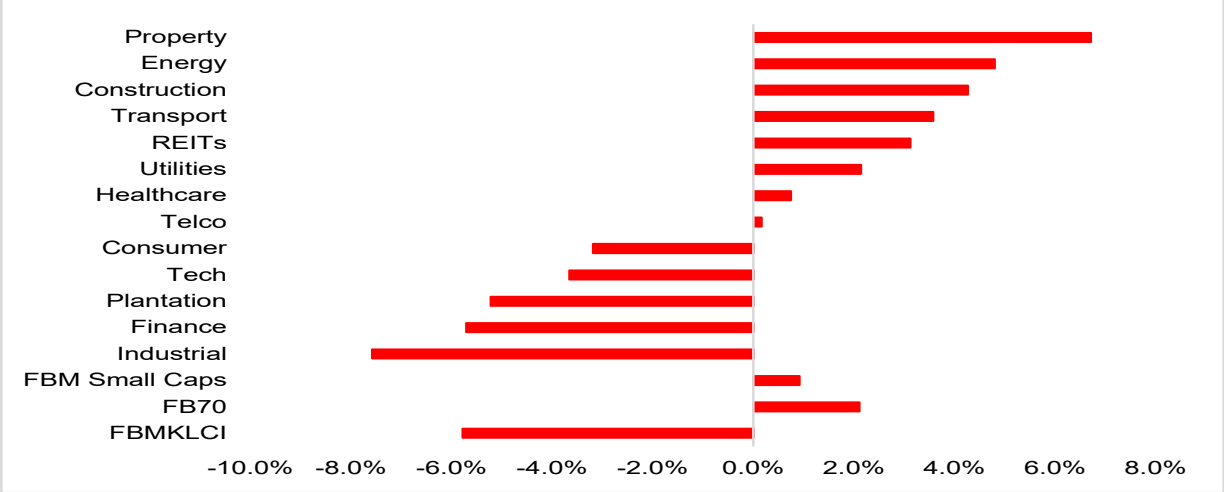
Source: Bloomberg, MIDFR

But concerns on banks almost undone it. Nevertheless, the positive was almost undone as it was apparent that inflation remains stubborn. This led to expectations that the US Fed will continue to be hawkish. Sentiment turned for the worse in March stemming from bank failures in the US, causing concerns on other banks, globally. For example, FTSE fell -5.0% (as of 28 March 2023) which nearly wiped out its gains.

FBM KLCI has been a laggard since the first month. While global markets are seeing a rally in January, FBM KLCI was one of the only two markets that we track that saw negative performance, coming down -0.7% as at end Jan-23. The other market was Jakarta JCI which fell -0.2% in that month. For FBM KLCI, this continued on with -2.1% and -3.1% in February and March, resulting in -5.8% year-to-date (YTD) decline. We opine that this could be due to weak sentiment.

Reversal of interest in financial and, industrial product and services sector. Besides weak sentiment, another of the main driver for the underperformance of the FBM KLCI was the reversal of interest in the financial sector as BM Financial Services index fell -5.7% YTD. This follows as that banks have a significant weightage in the FBM KLCI. Possible cause for this could be profit taking (as BM Financial Services index was one of the performers in 2022) and the fact that Bank Negara Malaysia (BNM) decided to pause its rate hike since Jan-23, against market expectations.

Chart 2: Comparison of Performance of Bursa Malaysia Sectoral Indices (YTD as of 28 March 2023)

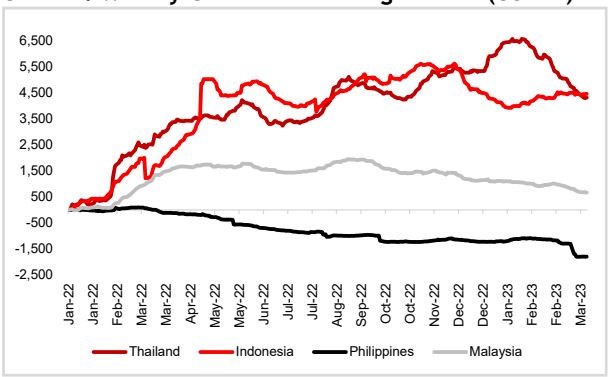


Source: Bloomberg, MIDFR

FBM 70 and FBM Small Caps are a different picture. We have observed somewhat of a two tiered market in Malaysia in 1QCY23. While FBM KLCI underperformed, FBM 70 and FBM Small Caps rose +2.1% and +0.9% YTD respectively. In our report "The Pivot is Coming", we stated that it might be an opportune time for investors to consider the mid-cap space.

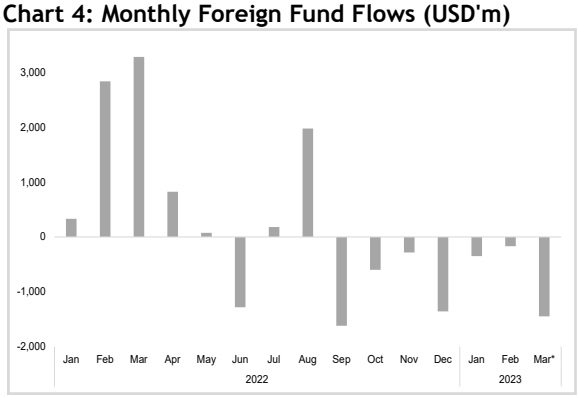
Net selling by foreigners. YTD, foreign funds have net sold RM1.96b worth of Malaysian equities (as of 28 March 2023). This was 62% of the total net outflows seen in CY21 (CY22 saw net inflows of RM4.38b). We observed that the sector that saw most of the net selling was financial services, probably due to profit taking and later to the concerns on global banking stability. We also opine that the net selling could be due to sentiment and worries of longer than expected US rate hikes, as we observed net outflows in other markets that we track as well.

Chart 3: Weekly Cumulative Foreign Funds (USD'm)



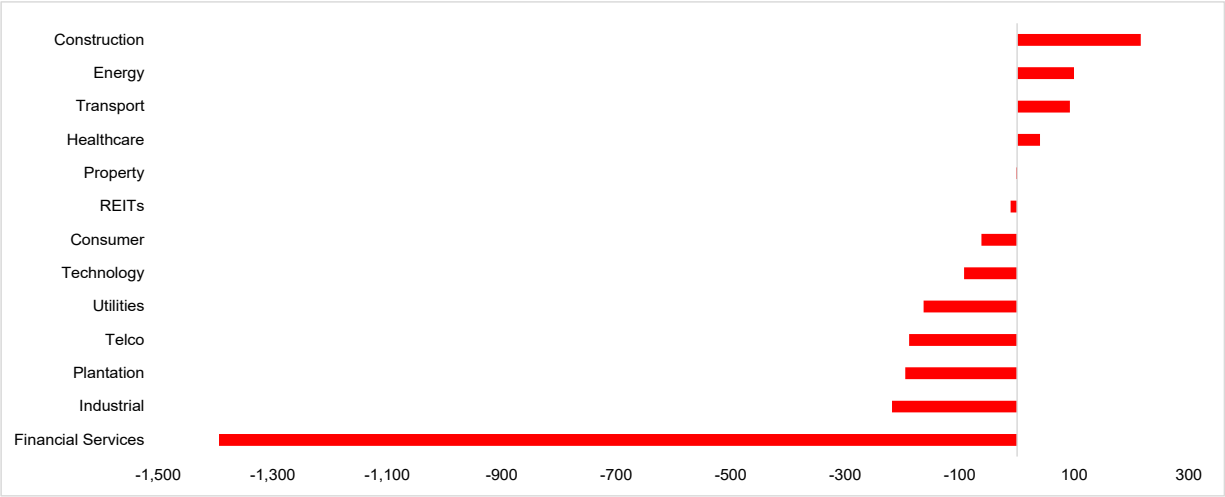
Source: Bloomberg, MIDFR

Chart 4: Monthly Foreign Fund Flows (USD'm)



Source: Bloomberg, MIDFR

Chart 5: Sectoral Foreign Fund Flows - Malaysia (YTD as at 28 March 2023) (USD'm)



Source: Bloomberg, MIDFR

Later than expected pivot by US Fed. A lot of the optimism and disappointment in the market in 1QCY23 still revolves around the US Fed and its interest rate decisions. Earlier optimism of a pause faded as inflation remained stubborn. However, we believe that the banking turmoil in the US caused the optimism to rise as investors anticipate an eventual pause, albeit slightly later than initially expected. Looking forward, our view that the US Fed will pause its rate hikes after May FOMC meeting. This should cause some boost to the markets.

Banking turmoil will not spiral out of control. Speaking of the recent banking turmoil, the concern is that we are witnessing the start of another 2008-like financial crisis. We believe that this is unjustified. As highlighted in our report, Is the Sky Falling?, we noticed one difference, 2008 was an episode of excess where credit practice was loosen as mortgages were securitised and traded, despite its quality. It should be noted that since the quality of these mortgage-backed securities was a suspect, its value could decline to nil. In contrast, US government bonds will revert to its original price upon maturity, so any losses are temporary. Meanwhile, central banks have reacted swiftly to contain the fallout of the US/Euro banking turmoil.

The sky is not falling yet. The knee-jerk reaction of world's equity markets to this development was decidedly negative due to potential wider fallout on the economy. However, we are of the view that Malaysia's GDP will remain unaffected and our banking sector is sufficiently robust. Moreover, at corporate earnings level, the consensus is still expecting FBM KLCI earnings for this year to register double-digit percentage growth. While the USD interbank market is thus far signaling no imminent systemic distress in the banking sector, we anticipate a situation whereby nagging fears over the possibility of more bank failures/distress and risk of a US recession to continue to dampen investor sentiment and contribute to heightened equity market volatility. Having said that, we do not believe that will lead to further contagion, at least at current juncture.

II. MACRO ECONOMIC OUTLOOK

GLOBAL ECONOMY: CHALLENGES IN SUSTAINING GROWTH, BRINGING DOWN INFLATION AND MAINTAINING FINANCIAL STABILITY

Moderation in global growth in 2023. Global growth is projected to moderate after the second year of post-pandemic recovery. We anticipate growth to remain in the positives even though there are several developments, including the recent banking turmoil in the advanced markets, which could affect overall outlook for the world economy. On the back of policy withdrawal and monetary policy tightening, global demand will grow moderately. Improving job market and income growth continue to support domestic spending. In particular, China's economic reopening and limited effect from energy crisis on Euro area economic growth are among the encouraging developments. In contrast, the collapse and failure of banks due to tighter liquidity condition raise concerns over the near-term growth outlook. At the moment, the spread and severity of Covid-19 infection has been less of a concern in many countries, and the positive effect from economic reopening will continue to support post-pandemic recovery, further boosted by absence of tight mobility and containment measures. Going into the latter part of the year, we anticipate there will be more talks about the expected slowdown, particularly in the US, from previous policy tightening which will affect global growth.

Global production and trade outlook. Latest PMI readings suggest there has been stabilization in global production activities. Global manufacturing PMI finally reverted to 50 in Feb-23 after months of contraction (remaining below 50). In the advanced markets, manufacturing activities fell slower in the US, Euro area, and the UK. China's business activities also recovered as PMI surged back to expansionary level for both manufacturing and services sectors following economic reopening. Similar improving trend was observed in the region, as recent PMI readings rebounded back to expansion (in Philippines, Indonesia, Vietnam, and Hong Kong) and indicated smaller contraction (in South Korea, Taiwan, and Malaysia). On another note, the continued weakness in South Korea's and Taiwan's external trade and industrial production signals the softening demand for global tech and E&E products, which had been affecting regional production activities. A more diversified export structure, however, saw sustained positive growth in Malaysia's and Indonesia's exports in the first two months of 2023. Overall, taking into account the weaker global growth, we expect growth in international trade and production to also moderate.

Global inflation eased but remains elevated. Many countries have tightened their policy when inflation trended higher and even reached multi-year highs. Although there are signs of easing price pressures as inflation has started to trend down, there is still concern that inflation will remain elevated. While the shift in consumption from goods towards services had resulted in reduced demand and easing upward pressures on goods prices, rising services charges and wages cause inflation to remain stubborn. On another note, we foresee reduced pressures on cost of production compared to last year and lower commodity prices, such as crude palm oil and wheat, will result in less need for more upward adjustment in selling prices. Energy prices are also relatively lower than last year with Brent crude oil prices falling to below USD80pb recently due to the recent turmoil in the banking sector reigniting expectations of weaker demand. Moreover, this was against high base last year when oil prices surging to as high as USD120pb by mid-2022 following the war in Ukraine, apart from concerns over supply disruptions. Similar downward trends were observed in natural gas and coal prices, and all these point to reduced pressures from the supply side. On the flip side, even after the aggressive tightening, aggregate demand looks robust as core inflation remained high in certain economies. Sustained demand pressures could keep inflation elevated for a longer period, albeit moderating from last year.

Keeping inflation in check vs. sustaining growth. We expect policymakers will keep its focus to controlling inflation which could hurt future growth outlook. While market was initially not convinced on the need to keep borrowing costs at high levels as inflation remains elevated, there is a shift back to pivoting by the Fed as growth concerns re-escalated in response to the shutdown of several banks such as Silicon Valley Bank and Signature Bank in the US and the trouble in Swiss banking system, which finally led to the acquisition of Credit Suisse by UBS. While the problem appears under control, we opine any problem to the banking sector will send a negative signal and likely drag down near-term economic outlook. This explains why market shifted back expectations towards expecting the Fed to pivot from its aggressive policy tightening, with more calls for policy easing in 2HCY23. While the focus remains on managing price pressures, we expect the weaker growth will eventually allow major central banks to pause and likely ease if economy weakens too rapid.

Maintaining banking sector stability. The banking sector problem in the US and Europe had caused growing fears that the economy will be hit by the instability in the banking sector. While there are views that this would lead to financial turmoil and another economic crisis, regulators reacted quickly and managed to ward off negative trickle-down effects to other sectors. For now, the recovery in the market suggests the recent turmoil was short-lived, but we keep cautious views that similar risks could repeat and more banks would face similar challenge due to the effect of rate hikes and tighter liquidity condition. We expect major central banks will be vigilant and ready to provide funding facility to ensure banks will not suffer from liquidity crunch, which could be exacerbated by increased stress in the financial market and risk experiencing bank runs. As stated in our **thematic report**, we foresee special attention will be given to support the banks to ward off any unintended impacts to the broader economy.

Other downside risks to global growth. In addition to the banking sector instability, we foresee several risks that could adversely influence global economic outlook. Firstly, prolonged elevated inflation from renewed spike in the commodity prices and stronger-than-expected demand pressures could keep price growth at high levels. This can be a result of another geo-political escalation and trade tensions or other supply shocks, such as logistic constraints, rising costs of production, and shortage parts and labour. Secondly, another round of bank failures and tighter liquidity condition could hit the banking sector. A more contagion risk affecting a wider number of banking institutions could have a more devastating effect on the broader economy. Thirdly, a rapid slowdown in global growth could send several countries into recession. This risk is still possible as central banks continue to tighten its policy, and the engineered tighter credit condition can be excessive if inflation turns out to be much lower than anticipated. The increase in borrowing costs may lead to sharper drop in aggregate spending, especially when consumers become more worried about the future economic prospects and inflation expectations. Fourthly, uncertainty on the global growth outlook could lead to increased volatility in the financial market. Growth will be negative impacted by tighter financial condition if banks decide to limit credit growth.

Expect EM currencies to rally again. The weaker dollar story will continue as interest differentials will not widen further, with the Fed funds rate to peak this year. Even though sentiment deteriorated in view of the recent shocks to the banking sector, the effect to regional currencies were limited. Interestingly, regional currencies strengthened in the week ended 17 March 2023. We anticipate the positive growth fundamentals and risk-on fund flows to support EM currencies to appreciate again as the Fed is expected to pause and even consider policy easing in the latter part of the year.

Table 1: Central Bank Policy Rate by Selected Economies (%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Malaysia	2.25	2.25	2.50	2.50	2.75	2.75	2.75	2.75	2.75
Indonesia	3.50	3.75	4.25	4.75	5.25	5.50	5.75	5.75	5.75
Philippines	3.25	3.75	4.25	4.25	5.00	5.50	5.50	6.00	6.00
Thailand	0.50	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50
Vietnam	4.00	4.00	5.00	6.00	6.00	6.00	6.00	6.00	6.00
South Korea	2.25	2.50	2.50	3.00	3.25	3.25	3.50	3.50	3.50
India	4.90	5.40	5.90	5.90	5.90	6.25	6.25	6.50	6.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
UK	1.25	1.75	2.25	2.25	3.00	3.50	3.50	4.00	4.00
Euro area	0.50	0.50	1.25	2.00	2.00	2.50	2.50	3.00	3.50
US	2.25-2.50	2.25-2.50	3.00-3.25	3.00-3.25	3.75-4.00	4.25-4.50	4.25-4.50	4.50-4.75	4.75-5.00

Source: Bloomberg, MIDFR

US: GROWTH TO BE BELOW TREND AS HIGH INFLATION REMAINS A KEY CONCERN

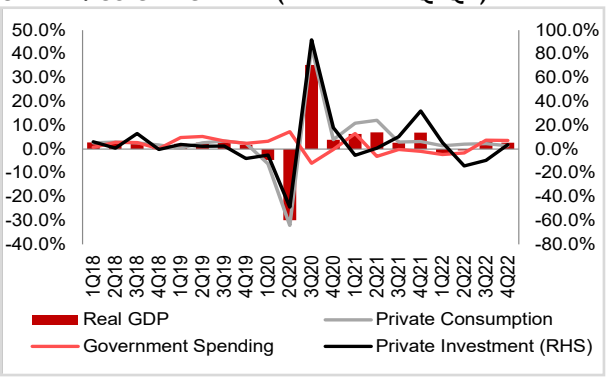
Growth to be below trend. The US economy is projected to experience below-trend growth this year, with GDP to expand at around +1% this year (2022: +2.1%). The aggressive policy tightening and tighter credit condition will lead to slower consumer spending. Although the US GDP grew by +2.7%qoq on annualized basis in 4QCY22 (3QCY22: +3.2%qoq), the year-on-year growth basically suggests the US economy could even grow below than +1%yoy. Its GDP growth already slowed to +1.1%yoy in the final quarter of 2022 (3QCY22: +2.1%yoy). Apart from weaker consumer spending, homebuying also slowed affected by the rise in mortgage rates. Investment in the residential property market has already weakened since 2QCY21, which was initially hit by the rise in construction costs. Nevertheless, there is confidence the US economy will continue to report positive growth this year, given the strength of its job market, with more jobs added into the economy on the back of robust labour demand.

Fed keeps its focus on bring down inflation. Reading from the Fed's latest FOMC decision in Mar-23, the Fed remained committed to its mission to bring down inflation towards its long-term 2% target. With the core PCE inflation at +4.7%yoy in Jan-23, the disinflation progress will likely take some time. This explains the Fed's projection to keep its policy interest rate at high level to ensure inflation will continue to ease going forward. The Fed also hinted that 2023 will likely be the end of the rate increases because the FOMC learned that the recent banking turmoil also led to tightening of financial condition. On that note, the Fed may proceed with policy tightening even without having to raise its benchmark interest. Based on the dot plot projection by the FOMC, the terminal rate of 5.10% for the Fed fund rate suggests there will be another 25bps hike at the next meeting in May-23, which will push the US interest rate to a more restrictive level as current range already exceeded the latest core PCE inflation. Consequently, if inflation eases further, there is room for the Fed to ease monetary policy if growth slows sharper than expected.

Stability of the banks is another concern. Apart from inflation concern, maintaining stability in the banking sector has become another key focus for the US policymakers. Although the Fed concluded the US banking sector remained on a strong footing, there could be more cases of bank failures. This is because the quantitative tightening and tighter credit condition also affected the banks. This can be damaging to the economy if the liquidity crunch led to the halt of credit flow to the household and corporate borrowers.

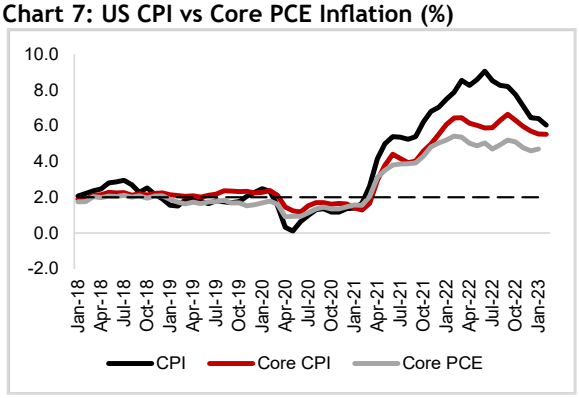
As such, we believe the Fed and other US regulators will stand ready to provide funding and backstop supports to the US banks which limit the negative impact from bank collapse on the US economy.

Chart 6: US GDP Growth (Annualised QoQ%)



Source: Macrobond, MIDFR

Chart 7: US CPI vs Core PCE Inflation (%)



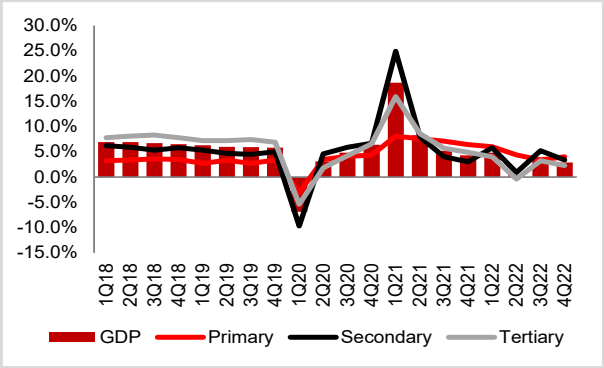
Source: Macrobond, MIDFR

CHINA: GROWTH MOMENTUM TO IMPROVE THIS YEAR BOOSTED BY ECONOMIC REOPENING

Momentum of growth to strengthen from 1QCY23. With the government announcing its victory over the Covid-19 pandemic, China's economy is expected to see a turnaround from the slowdown in 4QCY22. China's GDP will likely grow stronger as early as from 1QCY23, looking at the better PMI readings in first two months this year, signalling improved business activities in both manufacturing and services sector. This is coherent with industrial output rising faster at +2.4%yoy in Jan-Feb 2023 (Dec-22: +1.3%yoy). Moreover, consumer spending continued to recover following the rebound in retail sales, back to positive growth at +3.5%yoy in Jan-Feb 2023 (Dec-22: -1.8%yoy; Nov-22: -5.9%yoy). For the year, China's economy is projected to grow +5.2% (2022: +3.0%), more or less in tandem with the government's official growth target of +5.0%.

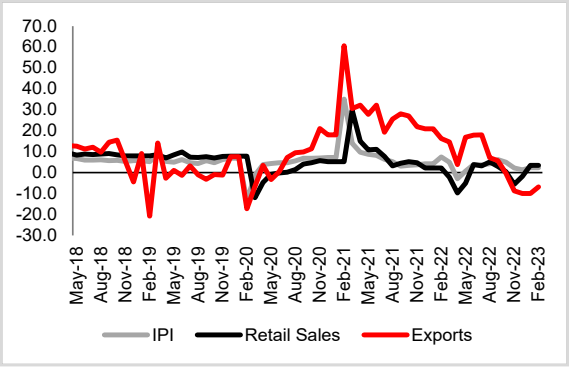
Property market to recover this year on the back of policy support. While policy support is expected to be one of the key factors to support China's recovery, the rebound in home buying as well as increased investment in the real estate sector is expected to contribute towards improved growth this year. Property sales will likely recover after a sharp drop -26.7%yoy last year. Similarly, several measures to support the property developers, such as expanded bond financing, greater access to credit, and special funding to ensure timely delivery of new houses, will facilitate recovery in the real estate investment. With the rebound in property investment from the -10%yoy decline in 2022, this will add to improved business activities in other sectors which were previously impacted by the strict Covid-19 lockdowns. With the loan prime rates maintained at current low levels, there was an acceleration in China's loan growth since the economy reopened. Total outstanding loans expanded faster at +11.6%yoy in Feb-23 (Jan-23: +11.6%yoy; Dec-22: +11.1%yoy). The reduction in the reserve requirement ratio (RRR) for the banks to 7.6% effective on 27 March 2023 will also encourage the pumping of more liquidity into the interbank market to facilitate better credit growth to the economy. We expect all this policy supports to help driving China's recovery this year, on top of the normalisation of economic activities since the economy reopened in Dec-22.

Chart 8: China GDP by Industry (YoY%)



Source: Macrobond, MIDFR

Chart 9: China Retail Sales, IPI and Exports (YoY%)



Source: Macrobond, MIDFR

MALAYSIA'S ECONOMY TO STAY VIGILANT AND RESILIENT WHILE NAVIGATING GLOBAL FINANCIAL MENACE

Sailing through strange tides. Considering the external headwinds, global financial market uncertainties and tightening monetary policy in many economies, Malaysia's GDP growth is expected to moderate to +4.2% in 2023. The softening growth is mainly due to a deceleration in external trade performances as global demand is anticipated to be slower than the previous year. The global economy is expected to slow down rather than enter recession in 2023. On the back of higher interest rates, banking turmoil and elevated inflationary pressure, domestic demand in the US and EU will likely dampen in 2023. Consequently, Malaysia's real exports is projected to grow at +3% (2022: +12.5%), partially supported by improving services exports via recovering tourism activity. On the flip side, China's sooner-than-expected reopening provides a silver lining to global economy and the reopening would also boost Malaysia's services exports as well as tourism activity. In addition, Malaysia's external trade will continue to benefit from increased global demand for commodities especially palm oil, crude petroleum and LNG as the prices of CPO and Brent crude oil are projected to stay elevated at RM3,500 per tonne and USD85pb for 2023. With demand expected to continue growing, agriculture and mining sectors will record an expansion rate of +1% each, while manufacturing output to grow modestly by +2.7% for 2023.

The fire keeps on burning for domestic demand. We are optimistic that the domestic economy will be fuelled by continuous upbeat consumer spending, further improvement in tourism-related activities and revival of infrastructure projects. Food inflation as well as overall price growth are predicted to trend lower following moderation in global commodity prices and easing in tight supply chain pressure, headline CPI forecast at +2.5% (2022: +3.4%). On top of that, Ringgit is projected to appreciate from average lower at RM4.20 per US dollar (2022: RM4.40) as the Fed is set to pause by 1HCY23. Domestic spending in Malaysia will stay upbeat underpinned by expansionary fiscal policy, easing inflation and lower jobless rate. Considering the recent volatility in the global financial market, we opine BNM will keep OPR status quo at 2.75% for the rest of the year. This will support for continued recovery in domestic economic activities. As a result, we are optimistic that services and construction sectors would grow by +5.5% and +4.7%, respectively, in 2023.

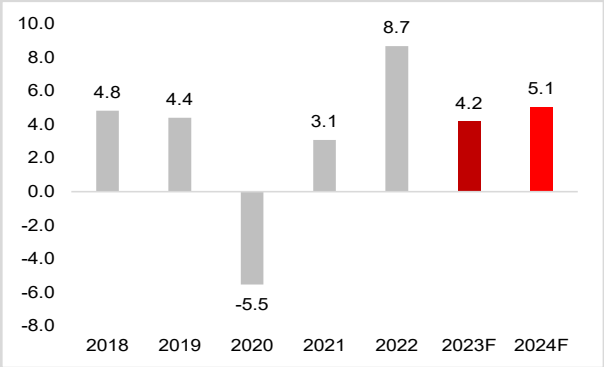
Largest DE. The RM388.1b expansionary budget tabled by the new government is larger than RM372.3b budget document tabled in Oct-22. The government even allocated a larger budget of RM99b for development expenditure (DE), more than a quarter of government spending. Excluding the RM2b in contingency savings, the higher DE allocation will be directed mostly to the Economic Sector (share: 56.7% of total DE), with total allocation of RM17.6b for the transport industry. While the government looks at ways to save and further reduce the cost for MRT3 development, there will be new infrastructure

developments such as Sanglang Port in Perlis and Pulau Carey Port in Klang. The large DE spending will also cover existing infrastructure projects such as KVDT Phase 2, ECRL, LRT3 and 5G rollout.

Higher private investment spending. Based on the 2nd edition Budget 2023, the government expects private investment to pick up strongly by +5.8% in 2023, which is stronger than previous forecast (1st edition Budget 2023: +3.7%). As an open economy, Malaysia continues to benefit from expanding global demand, elevated commodity prices and strengthening domestic economy, both from increased consumer and business spending. In addition, lower domestic political temperature is among the key enabling factors to support higher investment activities. Capital spending on technological improvement in the manufacturing and services sectors is expected to increase further. Similarly, we believe investment spending in the primary sectors will see solid uptick in the mining sector given that commodity prices are expected to stay buoyant and attractive.

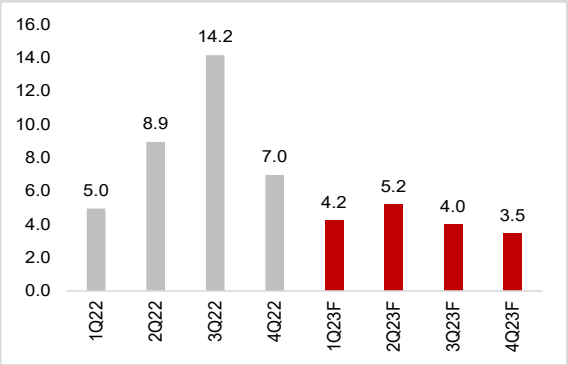
With record-high development expenditure, construction sector to get busier. Public investment is projected to continue growing above +7% (1st edition Budget 2023: +2.1%), among others attributable to the public infrastructure projects such as KVDT Phase 2, Pan-Borneo Highway, ECRL, LRT3 and RTS Link. In addition, increase of residential, non-residential buildings and facilities will further boost investment spending as well as construction sector. Meanwhile, the 5G roll-out will boost growth in the civil engineering sub-sector.

Chart 10: GDP Growth Forecast (YoY%)



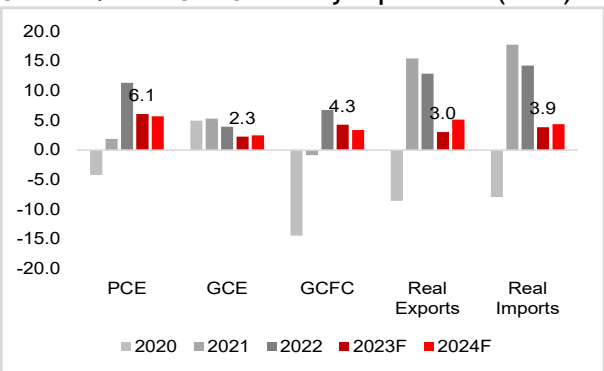
Source: Macrobond, MIDFR

Chart 11: GDP Growth Quarterly Forecast (YoY%)



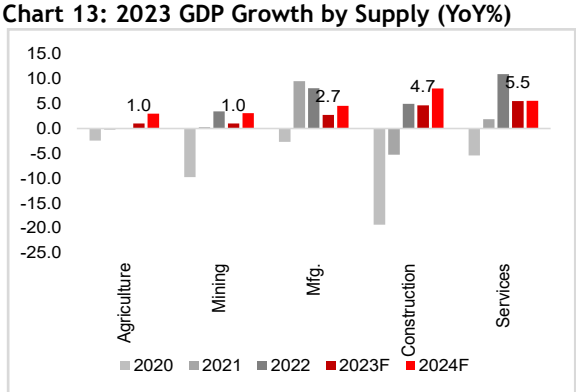
Source: Macrobond, MIDFR

Chart 12: 2023 GDP Growth by Expenditure (YoY%)



Source: Macrobond, MIDFR

Chart 13: 2023 GDP Growth by Supply (YoY%)

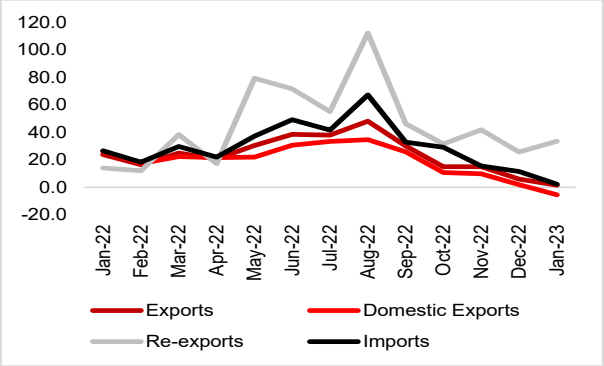


Source: Macrobond, MIDFR

Exports growth forecast at +9.2% for 2023. Global economy may dodge recession this year, but a slowdown is still likely. Negative effects of tightening monetary policy in many countries, elevated inflationary pressure and geopolitical tensions continue to pressure global trade flows since 4QCY22. On the flip side, China's reopening and ratifications of CPTPP and RCEP by Malaysia are seen as catalyst for

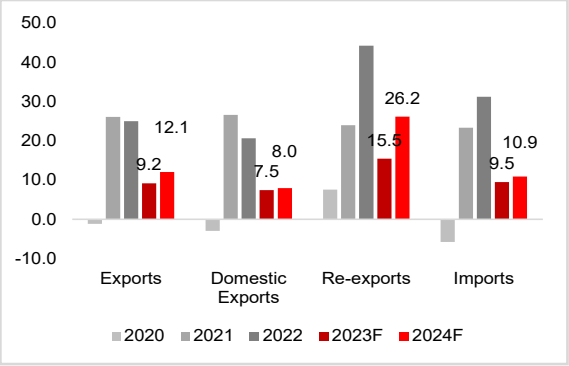
Malaysia's external trade performance for 2023 and beyond. We foresee exports and imports to expand by +9.2%yoy and +9.5%yoy, respectively, for 2023. In addition, Malaysia's outbound shipments can still hold up underpinned by elevated global commodity prices, even though the average prices of Brent and CPO projected to be relatively lower than last year. As for imports, steady domestic demand and expanding local activities will drive demand for imported goods this year.

Chart 14: External Trade Performances (YoY%)



Source: Macrobond, MIDFR

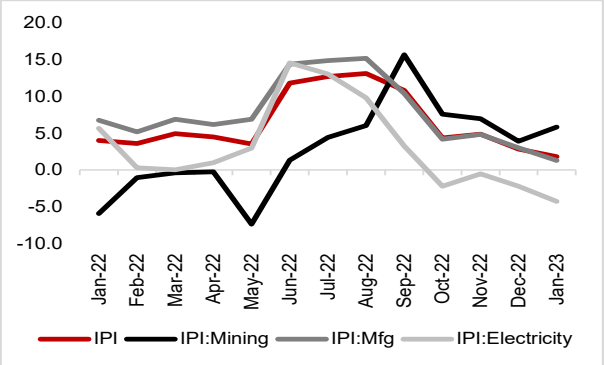
Chart 15: External Trade Forecast (YoY%)



Source: Macrobond, MIDFR

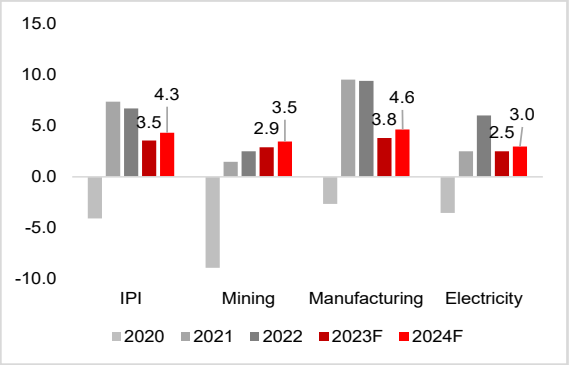
Mining output awakens. Mining output is set to continue recovering albeit elevated global energy prices. The completion of new pipeline projects in Sarawak and resumption of Sabah's oilfields operation are seen to benefit and able to uplift mining output in 2023. Mining output is projected to improve further by 0.4ppt to +2.9% in 2023. On the flip side, factory output is forecasted to be more moderate at +3.8%. Electricity output, which is closely associated with factory performance, will likely record a lower growth of +2.5% for 2023. Overall IPI is predicted to expand by +3.5% in 2023.

Chart 16: IPI Performance (YoY%)



Source: Macrobond, MIDFR

Chart 17: IPI Forecast (YoY%)

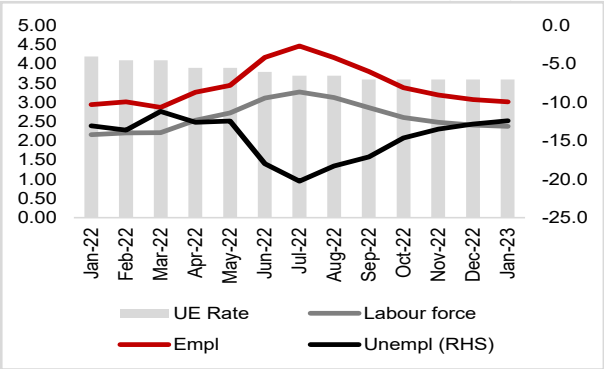


Source: Macrobond, MIDFR

Resilient labour market. The labour market in Malaysia is expected to strengthen further in 2023 and 2024, backed by encouraging momentum in the domestic economy and modest expansion in the external sector. Malaysia's unemployment rate is expected to decline further to 3.5% in 2023 and return to pre-pandemic levels at 3.3% in 2024. The return of non-citizens workers is expected to boost overall employment and reduce the jobless rate. As of 4QCY22, non-citizens' employment is almost 10% lower than pre-pandemic levels. During the pandemic years, close to 300K non-citizens workers left the workforce. Steady expansion in primary sectors as well as construction and services will prop up more employment opportunities next year. Labour force and employment are predicted to expand in the range of +1.6~1.8%. Further improvement in the labour market would strengthen consumer spending as the wage recipients to employment ratio

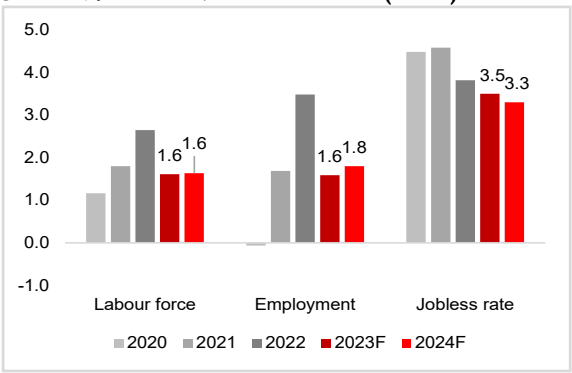
has reached a new peak at 64.5% in 2021, among others thanks to the minimum wage salary policy.

Chart 18: Labour Market Performances (YoY%)



Source: Macrobond, MIDFR

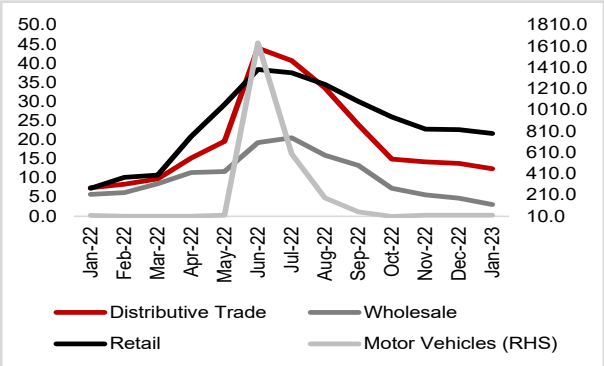
Chart 19: Labour Market Forecast (YoY%)



Source: Macrobond, MIDFR

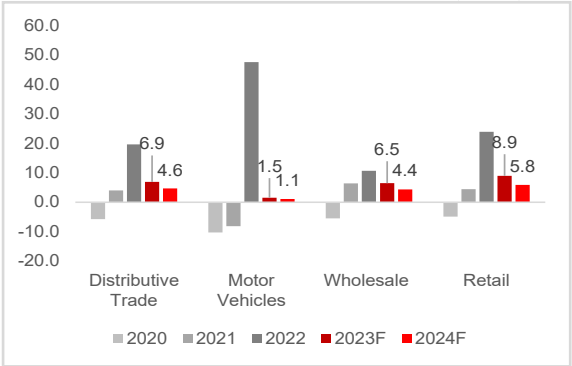
Consumer spending still sturdy & robust. Malaysia's distributive trade sales grew by +12.4%yoy in the first month of 2023, marking the 10th straight months of double-digit growth rate. All components except wholesale trade posted strong double-digit expansion. Sales of motor vehicles and retail trade increased by +20.1%yoy and +21.7%yoy respectively. Excluding price effects, seasonally-adjusted volume of distributive trade growth hit 9-month low at +5.2%yoy, mainly dragged by contraction of -3.5%yoy in wholesale trade. Motor vehicles and retail trade rose by +10.2%yoy and +13.8%yoy respectively in Jan-23. Looking ahead, we opine the upbeat momentum of domestic demand to continue in 2023 underpin by resilient labour market, softening inflationary pressure, pick-up in tourism activities and supportive economic policies. Pre-pandemic, 50.7% of Malaysia's airport passenger traffic was contributed by international travel, 25.0% by ASEAN and 25.7% by non-ASEAN destinations. As of Jan-23, domestic destinations share rose to 55.6% (2022: 71.7%) while international at 44.4% (2022: 28.1%) whereby 12% were non-ASEAN and 16.1% ASEAN.

Chart 20: Distributive Trade Sales, DT (YoY%)



Source: Macrobond, MIDFR

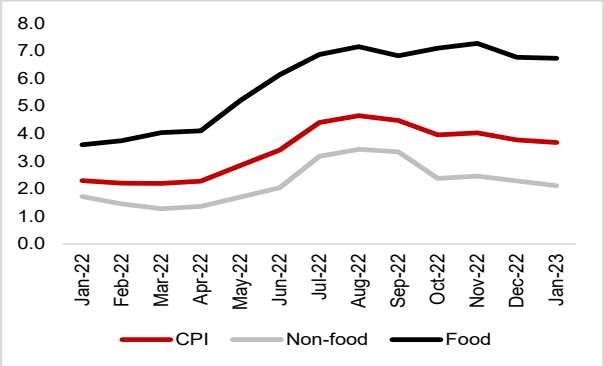
Chart 21: Consumer Spending Forecasts (YoY%)



Source: Macrobond, MIDFR

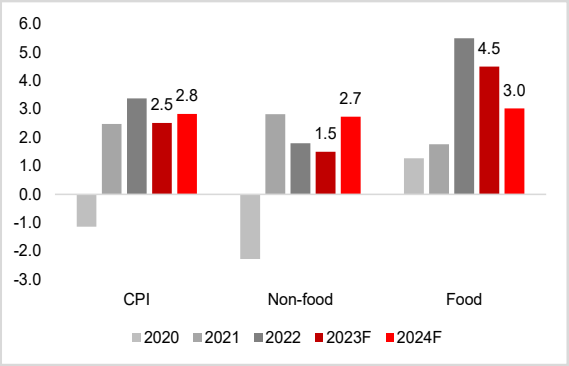
We raise slightly higher inflation forecast to +2.5% for 2023. Moving into 2023, supply-push factors are expected to ease, among others attributable to the appreciation of Malaysian Ringgit, mild correction in global commodity prices and better supply chain flows. Judging from the re-tabled Budget 2023, we believe the government will keep fuel subsidies especially RON95 on status quo until end of the year. We anticipate any targeted RON95-subsidy measures will only be rolled out in 2024. We raise our headline inflation projection slightly higher by 0.2ppt to +2.5% for 2023 following higher food price growth forecast at +4.5% (Initial forecast: +4%). Moreover, the recent inflation data shows somewhat sticky downtrend in CPI inflation, still we expect the overall price pressures would ease in the coming months.

Chart 22: Food-led Inflationary Pressure (YoY%)



Source: Macrobond, MIDFR

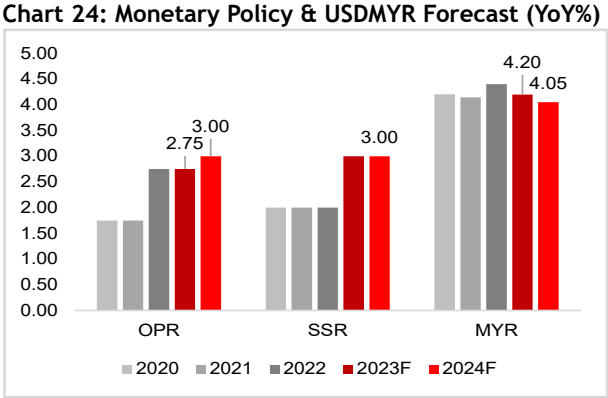
Chart 23: Inflation Forecast (YoY%)



Source: Macrobond, MIDFR

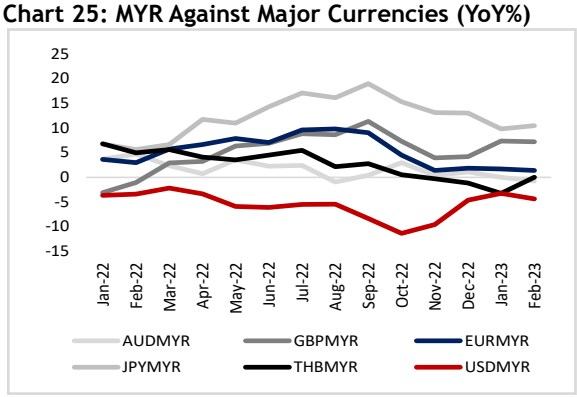
OPR rest at 2.75% for 2023. Considering local and global financial market conditions, we believe BNM will keep OPR status quo. We are in the view that BNM has missed the opportunity to completely front-load its monetary bullets during its MPC meetings in Jan-23 and Mar-23 especially domestic economic data still reflected steady and sturdy trends. If OPR is fully normalised at 3.00% earlier, this provides a larger monetary space for the central bank in the event of worse-than-expected domestic economic slowdown. However, the decision (to adjust OPR) will be subjected to the stability of economic growth, the pace of price increases and continued improvement in macroeconomic conditions, particularly a continued recovery in the labour market and growing domestic demand. From a medium-term perspective, the policy normalisation is needed to avert risks that could destabilize the future economic outlook such as persistently high inflation and a further rise in household indebtedness. If Malaysian economy were to grow faster than expected, 2HCY24 seems to be the best time for BNM to consider restoring its monetary bullets to pre-pandemic levels i.e. back to 3.00%.

Chart 24: Monetary Policy & USDMYR Forecast (YoY%)



Source: Macrobond, MIDFR

Chart 25: MYR Against Major Currencies (YoY%)



Source: Macrobond, MIDFR

USD/MYR to reach RM4.00 by end-2023. Strong US dollar has been the main factor for the depreciation of most currencies in 2022 due to the aggressive interest rate hikes by the Fed. As the central bank indicated intention to taper down its policy tightening, Ringgit recovered since early November 2022. Between early Nov-22 and late Jan-23, Ringgit appreciated by +11.9% from nearly RM4.75 to RM4.24, the strongest level since Apr-22. Fundamentally, Ringgit is in a good position to strengthen as the domestic economy stays on upbeat momentum and as a net commodity exporter (of crude petroleum, LNG and palm oil) it stands to gain from the elevated global commodity prices and sustained trade surplus. There was quick reversal which resulted in the Ringgit, and other regional currencies, depreciating again until mid-March 2023; ringgit weakened from RM4.24 in late Jan-23 and hovered around RM4.50 by mid-March, as investors demanded for more dollar in anticipation for more hikes by the Fed in reaction to sticky US

inflation data. However, the recent banking sector turmoil led to shift in market sentiment, with the Fed is again expected to pivot with small hikes (and possibly to cut rates later) this year. This brought back the weak dollar narrative and supported Ringgit and other currencies to appreciate. With the Fed also hinted at the end of its series of rate hikes, Ringgit appreciated towards RM4.40 on the subsequent day after the Mar-23 FOMC decision. As we expect this appreciating trend to continue, we maintain our forecast for MYR to average stronger at RM4.20 and end the year at around RM4.00.

Table 2: MIDF Research Macroeconomic Forecast Figures for 2023 (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023f	2024f
Real GDP	-5.5	3.1	8.7	4.2	5.1
Govt. Consumption	5.0	5.3	4.1	2.3	2.5
Private Consumption	-4.2	1.9	11.5	6.1	5.7
Gross Fixed Capital Formation	-14.4	-0.9	6.8	4.3	3.4
Govt. Investment	-21.2	-11.3	6.5	3.8	2.9
Private Investment	-11.9	2.6	7.5	4.4	3.5
Exports of goods & services	-8.6	15.4	12.8	3.0	5.1
Imports of goods & services	-7.9	17.7	14.2	3.9	4.3
Net Exports	-13.7	-4.1	-1.8	-7.3	15.8
Agriculture etc.	-2.4	-0.2	2.0	1.0	3.0
Mining & Quarrying	-9.7	0.3	2.8	1.0	3.1
Manufacturing	-2.7	9.5	7.3	2.7	4.5
Construction	-19.3	-5.2	3.5	4.7	8.1
Services	-5.4	1.9	10.0	5.5	5.6
Exports of Goods (f.o.b)	-1.1	26.1	25.0	9.2	12.1
Imports of Goods (c.i.f)	-5.8	23.3	31.3	9.5	10.9
	2020	2021	2022e	2023f	2024f
Unemployment Rate (%)	3.3	4.6	3.8	3.5	3.3
Headline CPI Inflation (%)	-1.1	2.5	3.4	2.5	2.8
Brent Crude Oil (Avg, USD per barrel	42	72	102	85	80
Crude Palm Oil (Avg), MYR per tonne	2,775	4,486	5,262	3,500	3,000
USD/MYR (Avg)	4.20	4.14	4.40	4.20	4.05
USD/MYR (End-period)	4.02	4.17	4.35	4.00	3.90
Overnight Policy Rate (%)	1.75	1.75	2.75	2.75	3.00

Source: Macrobond, Bloomberg, MIDFR

III. MARKET OUTLOOK

Bank failures/distress is perturbing... The recent spate of bank failures/distress in the US and Europe is perturbing. The initial knee-jerk reaction of world's equity markets to this development was decidedly negative due to potential wider fallout on the economy. In 2QCY23, we reckon the ongoing developments in regard the banking situation are expected to dominate investors' attention and influence market sways.

...but remains optimistic on macro and earnings outlook this year. However, as discussed in above, we are maintaining our GDP growth target for Malaysia at 4.2% in 2023. Moreover, at corporate earnings level, the consensus is still expecting FBM KLCI earnings for this year to register double-digit percentage growth.

Table 3: FBM KLCI - Historical & Consensus Forward Earnings

Calendar Year	Earnings (Points)	YoY (%change)
CY2023 (F)	109.76	15.55
CY2022	94.99	-10.89
CY2021	106.59	62.06
CY2020	65.77	-23.68
CY2019	86.18	-14.35
CY2017	107.90	9.8

Source: Bloomberg, MIDFR

Look at TED Spread for guidance on banking system outlook. In our reckoning, the burning question on whether the recent bank failures/distress would either (1) be contained, or (2) turn systemic, could be best answered by the wisdom of learned crowd, i.e. the peer banks. For that reason, we turn to TED Spread, which is an interbank market indicator, for guidance.

TED SPREAD: AN INDICATOR ON THE OVERALL HEALTH OF THE BANKING SYSTEM

Interbank assessment of banking health. The TED Spread (difference between 3-Month USD Interbank Rate and 3-Month UST Bill) is a good indicator of USD interbank market assessment on the immediate outlook of the overall health of the US banking system.

Figure 1: TED Spread



Source: MIDFR, Bloomberg (G713)

Above 60bps warrants caution and distress signal beyond 100bps. The long-term (20-year) average of the TED Spread stands at 39bps. Empirically, a reading above 60bps warrants caution. Moreover, a reading above 100bps may signal imminent systemic distress.

TED SPREAD: A LEADING INDICATOR TO 2008 GFC

Early warnings from TED Spread of forthcoming distress. Looking back at the months prior to the 2008 Global Financial Crisis (GFC), TED Spread began to climb above 60bps in June 2007. It went on to spike above 100bps in August 2007. The USD interbank market arguably sensed early on that something untoward of systemic proportion was about to unfold.

Figure 2: TED Spread vs. US Fed Rate (2006 to 2009)



Source: MIDFR, Bloomberg (G712)

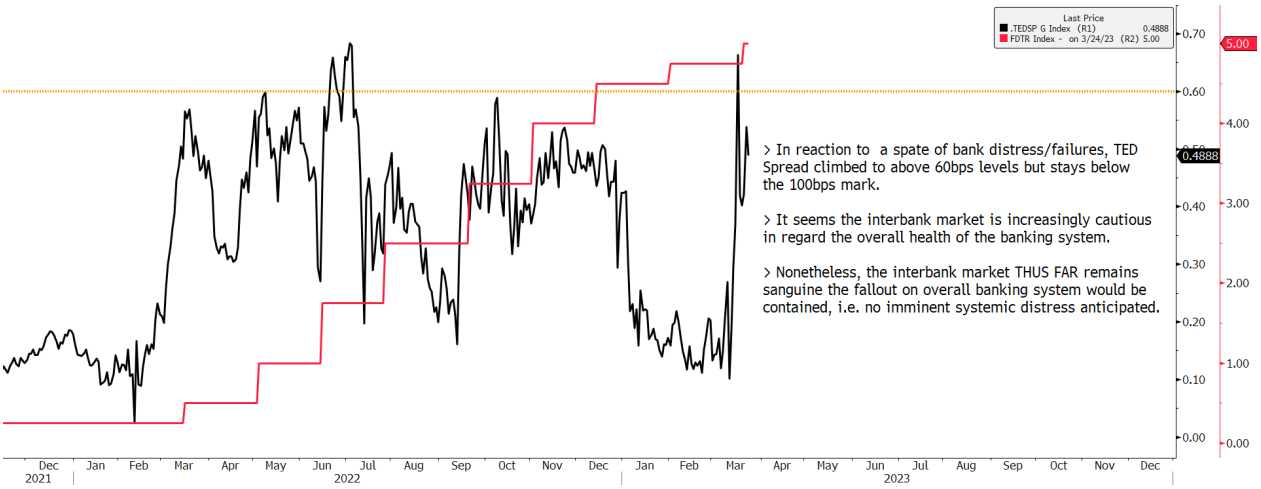
Subsequently, the US Fed began to cut rate by 50bps in September 2007 (less than 15 months after the end of its 2004/06 rate hikes from 1.00% to 5.25%). Despite multiple US Fed rate cuts in 2007/08, the TED Spread remained largely above 100bps and soared further to more than 400bps in October 2008 (after the demise of Lehman Brothers).

Meanwhile, in the equities market, the DJIA peaked (then all-time high) only in October 2007 and FBM KLCI peaked (then all-time high) even later in January 2008.

TED SPREAD: NO CONFIRMATION OF ANOTHER GFC IN 2023

TED Spread remains below 100bps thus far. In reaction to recent spate of bank distress/failures, TED Spread climbed to above 60bps levels but retreated to 49bps currently. More importantly, it stays well below the 100bps mark.

Figure 3: TED Spread vs. US Fed Rate (2021 to 2023)



Source: MIDFR, Bloomberg (G712)

Interbank market seems sanguine the turmoil is containable. It seems the USD interbank market is rather cautious in regard the overall health of the banking system. Nonetheless, at current juncture, it appears the interbank market thus far remains sanguine the fallout on overall banking system would be contained, i.e. no imminent systemic distress anticipated.

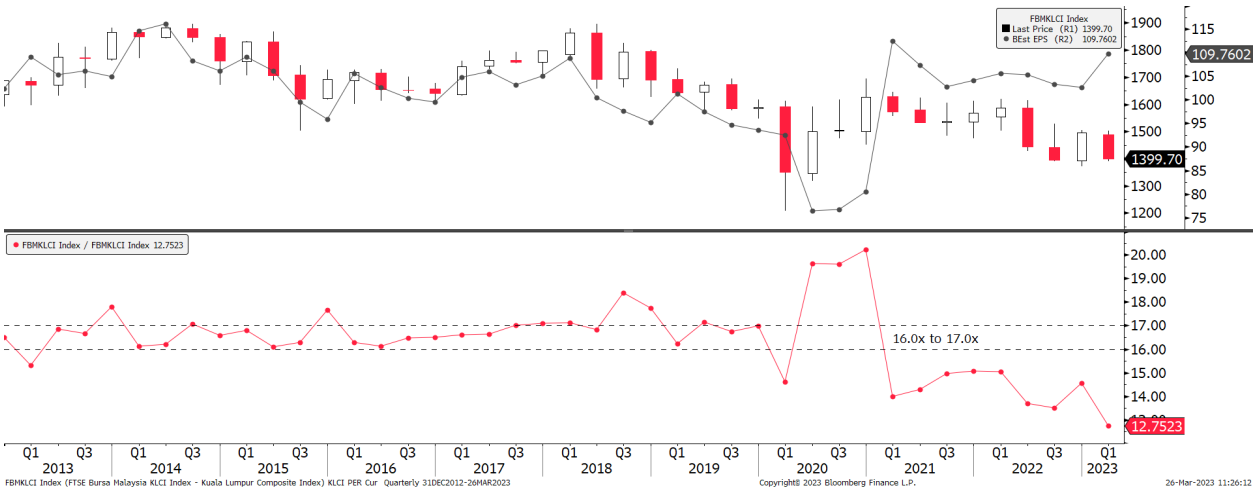
Nagging fears to dampen equity market sentiment. While the USD interbank market thus far is signaling no imminent systemic distress in the banking sector, we anticipate a situation whereby nagging fears over the possibility of more bank failures/distress and risk of a US recession to continue to dampen investor sentiment and contribute to heightened equity market volatility.

Tailwinds from macro and earnings growth as well as cessation of rate hikes. On the flip side, we also foresee a situation whereby the equity market would experience tailwinds engendered by the end of interest rate tightening cycle and possible ensuing cuts (CME FedWatch), as well as positive macro and corporate earnings growth.

FBM KLCI BASELINE TARGET (END-2023)

FBM KLCI at depressed valuation. At PER23 of 12.8, the FBM KLCI is currently trading at depressed valuation (vis-à-vis its historical range of 16.0x to 17.0x) partly attributable to price underperformance of its heavyweight banking constituents thus far this year. However, we expect the market valuation to revert higher in due course supported by (1) macro and corporate earnings growth, (2) end of interest rate tightening cycle, and (3) no systemic distress in the banking sector (as signaled by the USD interbank market).

Figure 4: FBM KLCI - Price, Earnings & Valuation (Current Year) - Historical Range of 16.0x to 17.0x



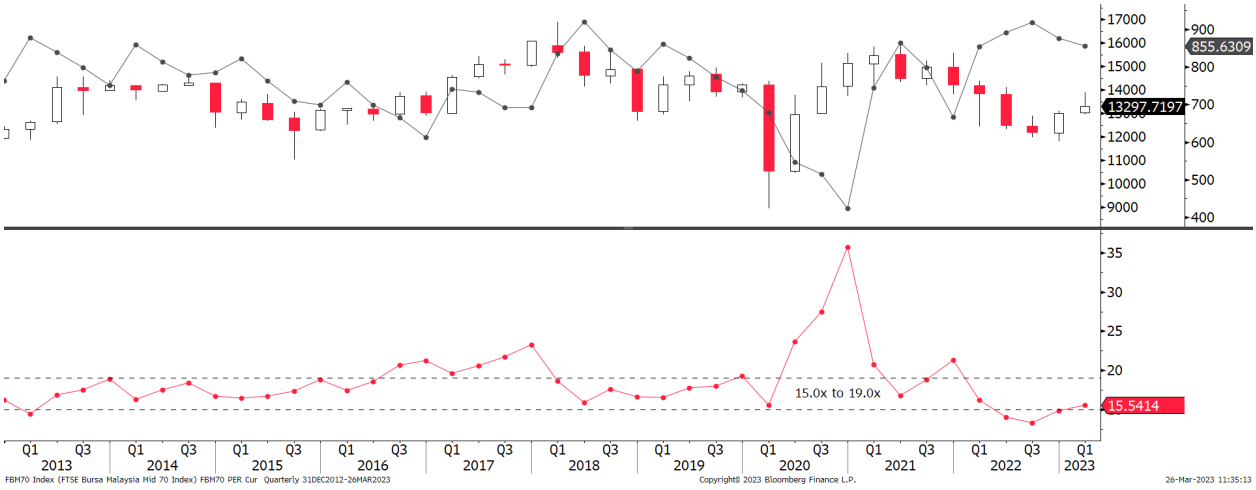
Source: MIDFR, Bloomberg (G658)

Expect valuation recovery but to remain well below historical range. Nonetheless, nagging fears over the possibility of more bank failures/distress and risk of a US recession to continue to dampen investor sentiment and contribute to heightened equity market volatility in the months to come. Consequently, it would restrain the process of valuation reversion. We maintain our FBM KLCI end-2023 target at 1,590 points or PER23 of 14.5x.

INITIATE FBM70 BASELINE TARGET (END-2023)

FBM70 at lower end of historical valuation range. At PER23 of 15.5x, the FBM70 index (which represents mid-cap stocks) is currently trading within its historical valuation range (of 15.0x to 19.0x) albeit at the lower end. When compared to the big-caps, the mid-cap stocks performed better thus far this year both in terms of valuation and also YTD price return (i.e. FBM KLCI: -6.4%, FBM70: +2.2%) as the former were largely beset by the price underperformance of its heavyweight banking constituents.

Figure 5: FBM70 - Price, Earnings & Valuation (Current Year) - Historical Range of 15.0x to 19.0x



Source: MIDFR, Bloomberg (G715)

Expect valuation to improve to slightly above mean level. Going forward, we expect the market valuation of FBM70 to improve further supported by (1) macro and corporate earnings growth, (2) end of interest rate tightening cycle, and (3) no systemic distress in the banking sector (as signaled by the USD interbank market). Nonetheless, nagging fears over the possibility of more bank failures/distress and risk of a US recession would limit the valuation gain. Hence, we introduce our FBM70 end-2023 target at 15,000 points or PER23 of 17.5x.

IV. STOCK SELECTION

Cautiously optimistic. Despite the concerns of a banking crisis and recession on the global equity market, we are still cautiously optimistic. We remain sanguine on the continued recovery of the economy, albeit at a normalised level. Meanwhile, we expect valuation of our equity market will recover.

Robust domestic demand to continue supporting the economy. We make no changes to our expectation that Malaysia's domestic demand will provide support to the economy. It will be fuelled by continuous upbeat consumer spending, moderation in price pressures, further improvement in tourism-related activities and possible revival of infra projects. Hence, we continue to like consumer related companies, whether it is consumer staples, shopping related REITs or automotive will be a beneficiary of the consumer spending.

Banking may be a potential. Another sector that we opine investors could consider tactically is the banking sector given the recent price pullback. Furthermore, we expect that the banking turmoil will be contained, and Malaysian banks will remain robust. Besides, banks' dividends will provide a limit to the downside risk during this volatile period.

No changes to sector calls. We make no change to our sector calls. The summary of our sector calls are as follows;

POSITIVE : Automotive, Banking, Construction, Consumer, Healthcare, Media, Oil & Gas, REITs, Technology

NEUTRAL : Plantations, Power, Property, Telecommunication, Transportation

NEGATIVE : Gloves

Top ten picks reflect our view. For our top ten stock picks, it reflects our expectation that consumer related stocks will benefit from robust consumer demand in CY23. Hence, our top ten stock picks are:

Table 4: Top Stock Picks (Rank by Total Returns)

	Rec.	Price (RM) @ 28/3	Target Price	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
AEON Co.	BUY	1.31	1.90	45.0%	4.5%	49.5%	1	N
PPB Group	BUY	16.80	24.10	43.5%	2.4%	45.8%	3	Y
Dialog Group	BUY	2.30	3.28	42.6%	1.8%	44.4%	4	Y
UMW Holdings	BUY	3.79	5.28	39.3%	3.6%	42.9%	3	N
Fraser & Neave	BUY	25.50	33.50	31.4%	2.7%	34.1%	4	Y
Public Bank	BUY	3.94	5.08	28.9%	4.6%	33.5%	4	Y
Bumi Armada	BUY	0.62	0.80	29.0%	1.3%	30.3%	3	N
Inari Amertron	BUY	2.42	3.00	24.0%	5.5%	29.5%	4	Y
QL Resources	BUY	5.81	6.80	17.0%	0.8%	17.8%	3	N
Sunway REIT	BUY	1.60	1.73	8.1%	5.8%	13.9%	4	Y

Source: Companies, Bursa Malaysia, FTSE, Bloomberg, MIDFR

Top ten picks amongst FBM 70 stocks. In our opinion, it is worthwhile for investors to look at FBM 70 more closely. Given this, and our introduction of an FBM 70 year-end target, we also introduce our FBM 70 top picks. We should note that four out of our overall top ten picks are FBM70 constituents. We also note there are several other stocks that are within our theme for this year (oil & gas and consumer related i.e. consumer, automotive and REITs) that are amongst the FBM70. Below is our top ten picks amongst FBM70 stocks:

Table 5: Top FBM 70 Stock Picks (Rank by Total Return)

	Rec.	Price (RM) @ 28/3	Target Price	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
AEON Co.	BUY	1.31	1.90	45.0%	4.5%	49.5%	3	Y
Bermaz Auto	BUY	2.26	3.20	41.6%	6.1%	47.7%	4	Y
Alliance Bank	BUY	3.28	4.26	29.9%	7.2%	37.0%	3	Y
Fraser & Neave	BUY	25.50	33.50	31.4%	2.7%	34.1%	4	Y
Bumi Armada	BUY	0.62	0.80	29.0%	1.3%	30.3%	4	Y
Unisem	BUY	2.99	3.72	24.4%	3.3%	27.8%	4	Y
Gamuda	BUY	4.09	5.04	23.2%	2.9%	26.2%	3	N
Bursa Malaysia	BUY	6.47	7.30	12.8%	5.5%	18.4%	4	Y
Sunway REIT	BUY	1.60	1.73	8.1%	5.8%	13.9%	3	Y
Axis REIT	BUY	1.89	2.06	9.0%	4.2%	13.2%	3	Y

Source: Companies, Bursa Malaysia, FTSE, Bloomberg, MIDFR

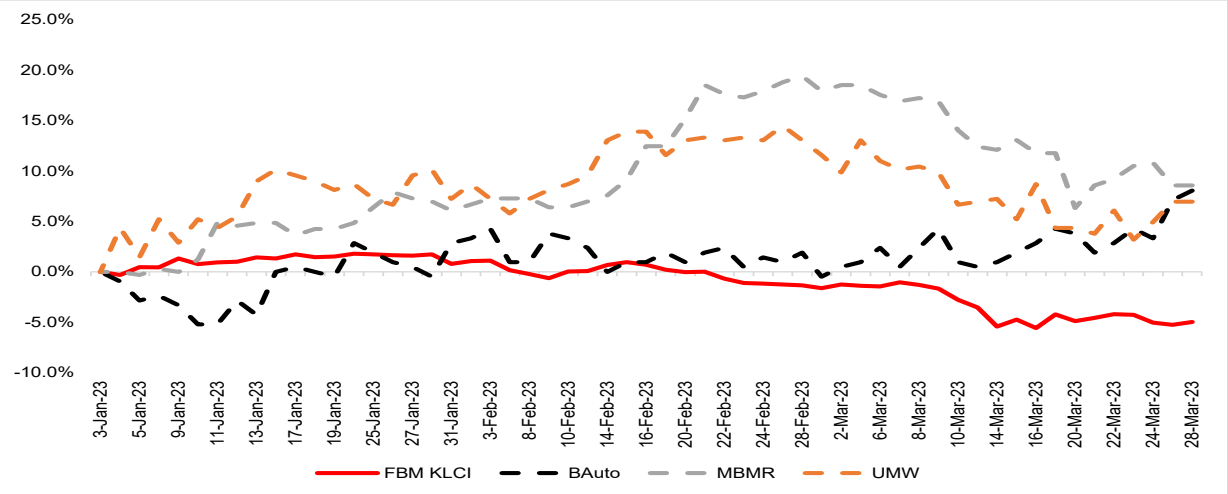
B. SECTORS OUTLOOK

I. AUTOMOTIVE

Cautiously optimistic.....Maintain POSITIVE

TIV momentum sustaining. The auto sector has kept up the strong sales momentum thus far this year, registering a +30%YTD TIV growth (up till February 2023) driven by a pickup in deliveries ahead of the 31st March deadline to deliver Penjana-tax holiday bookings. This strength was seen across the board, in particular for the national cars, albeit partly given a weak base in January last year from impact of the floods in Selangor. Backed by still strong sales momentum post-tax holiday, a large order backlog of 5-9 months (for key players under our coverage) and continued improvement in macro conditions, we keep our 2023F TIV at 713K, which is close to last year's record TIV of 721K units. Reflecting the sustained momentum in the sector, share price performance of key auto players under our coverage continued to outperform the broader index year-to-date.

Chart 26: Key Auto Stocks Under Coverage Continues to Outperform The FBM KLCI



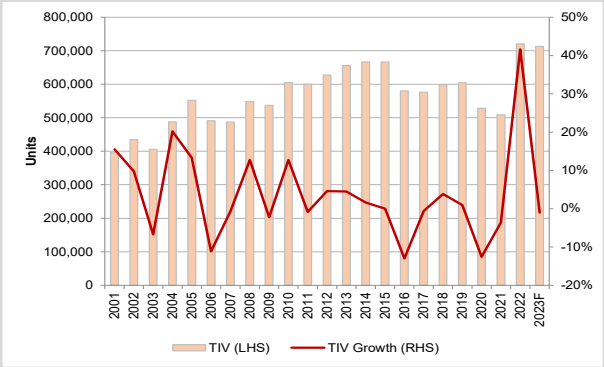
Source: Bloomberg, MIDFR

Large backlog provides strong revenue visibility. New booking momentum has largely sustained, despite prior scepticism on the industry's sales momentum. Eight-months after expiry of the tax-holiday (in June 2022), order backlog remains elevated: (1) Perodua is still sitting on 220K order backlog, making up 75% of our 2023F Perodua TIV i.e., 9-month 2023F Perodua TIV equivalent. (2) Toyota's order backlog of >50K is equivalent to 6 months, or 52% of our 2023F Toyota TIV. (3) Mazda's order backlog of 6.8K represents 5 months, or 44% of our CY23F Mazda TIV. Importantly, less than half of the current backlog comprise of tax-holiday bookings, we gather. This large order backlog provides strong revenue visibility for the sector for the rest of the year, at least.

New launches could underpin momentum further. Given a large order backlog and component shortages, most auto players have deferred new launches to 2023. We believe the re-acceleration of new launches will be another catalyst for the sector this year. Among the key brands: (1) Perodua launched the new Axia in February 2023 – one of Perodua's key volume drivers making up 20%-25% of Perodua TIV (2) Toyota launched the new Vios in March 2023 – this is UMW Toyota's largest volume driver, estimated to make up a third of Toyota TIV (3) The CKD CX30 was also launched in March 2023 – expected to become Mazda's 2nd largest volume driver after the CX5. Beyond these, we note ageing base models in the market like the Kia Sportage, Honda CRV, Perodua Bezza and Proton Preve, which could see replacements being launched within the next 2 years.

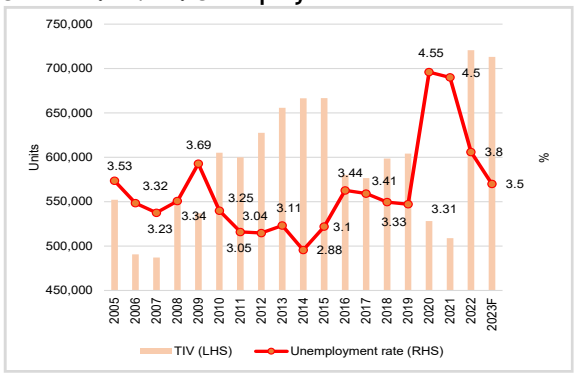
Easing inflationary pressure and labor market improvement should improve consumer spending power. From a broader macro standpoint, we believe domestic consumption will gain further traction in 2023. According to our economics team, real GDP is expected to grow by +4.2%yoy this year driven largely by a +6.6%yoy growth in private consumption. Unemployment rate is expected to improve to 3.5% from 3.8% in 2022 while headline inflation is expected to ease to 2.5% from 2.8% last year. The confluence of sustained GDP growth, improving unemployment and easing inflation suggests potential improvement in consumer spending power in 2023, which should eventually trickle down to auto purchases, in our opinion. OPR is expected to remain in check at 2.75%, similar to end-2022 levels following Bank Negara's decision to pause its interest rate hike. In any case, a move towards 3.00-3.25% levels merely reflect a normalisation in the interest rate cycle back to pre-pandemic levels in line with the recovering economy.

Chart 27: Annual TIV Trend



Source: MAA,BNM, MIDFR

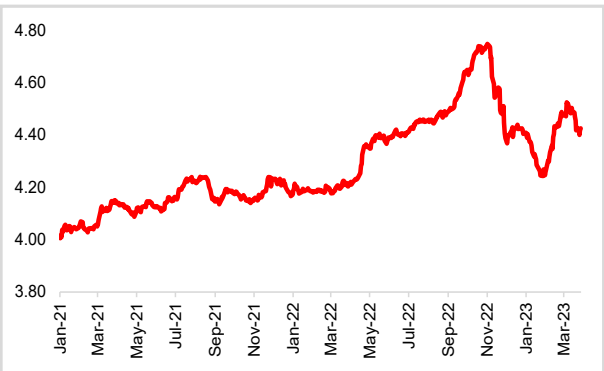
Chart 28: TIV vs. Unemployment Rate Trends



Source: MAA,BNM, MIDFR

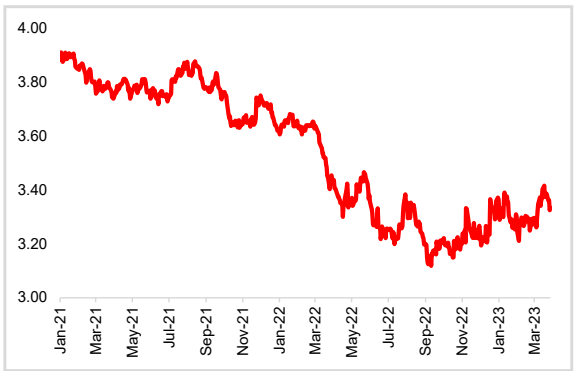
Stronger Ringgit provides tailwind. 2022 largely saw a strengthening of the USD against the Ringgit and most other currencies given the Fed's aggressive monetary tightening. Nevertheless, we expect this trend to reverse once the Fed's tightening cycle peaks this year. We project the Ringgit to strengthen to an average USD:RM4.20 this year from USD:RM4.40 in 2022. A stronger Ringgit provides tailwind for the auto sector given exposure to USD-denominated import cost - UMW Holdings and Tan Chong are key beneficiaries. Meanwhile, the JPY remains weak, which bodes well for JPY-exposed players such as Bermaz Auto.

Chart 29: USDMYR Trend



Source: Bloomberg, MIDFR

Chart 30: JPYMYR Trend



Source: Bloomberg, MIDFR

Reprieve from easing cost. The recent 4QCY22 result season saw selective auto players registering margin contraction given higher raw material cost and a stronger USD. The latter reflects mainly peak USD:RM rates in 3QCY22 given forward hedging by players – USD:RM rates is expected to turn more favourable from the next result season reflecting the easing USD trend from 4QCY22 onwards. On top of more favourable forex, we expect

easing commodity prices, particularly steel and aluminium, to gradually reduce the cost pressure for the national cars from 2Q23 onwards. Margins for non-nationals on the other hand, are more resilient, as they mainly source CKD kits from principals rather than outright raw materials, whereby the principal typically absorbs part of the cost volatility. Additionally, easing global supply chain tightness should progressively lower logistics costs going forward, as seen by the easing in global freight rates and shipping costs.

Inventory levels remain low. Following almost two years of chip and component supply constraint, coupled with a strong rebound in demand, inventory levels remain very low in the industry. Our channel checks suggest players are on average, still sitting on circa 1 month of inventory (vs. the usual 3 months), which should reduce the risk of price competition/discounting. Meanwhile, the used car market is still seeing solid demand with double-digit growth projected for CY22-24 by the Federation of Motor and Credit Companies Association of Malaysia, which suggests trade-in values should remain favourable for new car buyers.

Sitting on large net cash piles. Auto players have built significantly large net cash reserves in the past 2 years – most auto players under our coverage (with the exception of Tan Chong Motor) are now sitting on net cash piles equivalent to 20%-30% of their market cap. This positions the sector well for: (1) Higher dividend payout, (2) Potential M&A-driven growth, particularly to tap on the early cycle adoption of new generation vehicles e.g., electric vehicles and autonomous vehicles, which can be both in the form of vertical or horizontal expansion.

Valuations remain depressed notwithstanding outperformance this year. We believe at current share price levels the market is still pricing in high risk for the auto sector – players under our coverage are still trading at 15%-30% discount to historical mean. Additionally, share prices of auto stocks under our coverage are currently still below pre-pandemic levels despite having seen significant earnings recovery (to well above pre-pandemic levels). The bulk of share price upside in the past 12 months was driven by upward revision in consensus earnings rather than a valuation reversion to historical mean, which has yet to materialise due to concerns on underlying demand momentum (beyond the tax-holiday driven demand) and cost pressures from a previously weakening MYR trend, supply issues and elevated commodity & logistics cost. We believe valuations will eventually catch up with the sustained earnings and balance sheet improvement going forward.

We remain cautiously optimistic on the the auto sector premised on: (1) Strong revenue visibility underpinned by a large order backlog, (2) Re-acceleration of new launches, (3) Improving consumer spending power from easing inflation and sustained improvement in the labor market, (4) Gradual recovery in chip and component supply, (5) Easing underlying cost pressures from easing commodity prices and logistics costs, (6) Depressed sector valuation at 15%-30% below mean, (7) Large net cash piles driving higher dividends and M&A growth potential. UMW (BUY, TP: RM5.28), BAuto (BUY, TP: RM3.20) and MBM Resources (BUY, TP; RM4.70) are our top sector picks. Key risks to our call are a worse than expected supply disruption, a weaker domestic macro backdrop and a weaker Ringgit

II. BANKING

Attractive valuations amid global concerns.....Maintain POSITIVE

Bank-run related fears. Brighter earnings prospects in CY23 and CY24 are clouded by significant downside risk brought about by the global banking situation. Several questions which could determine the scale and duration of the outbreak remain:

1. Whether it will be largely confined to sector-specific regional banks or other large banks will also be affected,
2. Whether it will be confined to the US/Euro region, or spread to other countries which have experienced

sharp interest rate upticks,

3. Whether or not central banks will change its interest rate policy stance.

Local banks are well-regulated and heavily capitalised. We are not expecting Malaysia to experience anything of that scale. The most we may see are regional banks facing similar scares – which may cause further downward share repricing.

For now, we urge investors to be wary of banks with heavy regional exposure (especially in countries which have experienced high-interest rate hikes), as an incident in the country could lead to share selldown.

Earnings outlook still positive, despite headwinds. Considering recent fears, BNM may maintain the OPR at 2.75% for the year – most banks offered guidance that incorporated at least one interest rate hike. However, note that these have extremely conservative CASA assumptions, and we believe that the individual net interest margin (NIM) guidance is still valid.

The central concern for CY23 is NIM compression, brought about by both higher interest rates and CASA reduction. This is offset by a recovery in non-interest income (NOII) and sizeable overlay writebacks. Writebacks are expected to be a lot more positive than management guidance, given the majority do not incorporate overlay writebacks (which will almost certainly happen in CY23).

No major scares on the balance sheet. On the asset quality front, there were major write-offs in the last quarter (likely for window cleaning purposes). Banks have repeatedly assured us that delinquency rates for loans associated with R&R programmes are well within expectations – it also seems that a large proportion of those who have turned delinquent are either retail mortgages or SME names, which are heavily collateralised and guaranteed.

Loan growth is expected to be a bit more muted than CY22's extraordinary performance, given the higher COF this year and fears of a possible SRR normalisation.

Top picks. Our first top pick is **Public Bank (BUY, TP: RM5.08)** as a defensive pick, for its excellent asset quality and a high proportion of retail loans, its low regional exposure and potential recovery in unit trust income following a recovery in capital market conditions. A favourable outcome of its succession plan (something similar to the present state) could result in PBK's share price being pushed up by a tier.

Our second top pick is **CIMB (BUY, TP: RM5.24)**. Despite exposure to regional banking sector risks, CIMB's exposure to the Indonesian market is extremely lucrative, and it should see less loan compression pressure following the end of its foreign loan restructuring programmes.

While the following are not necessarily top picks, we highlight them for high dividend yields: **Maybank (NEUTRAL, TP: RM8.94)**, **RHB (BUY, TP: RM6.74)**, **BIMB (BUY, TP: RM2.99)** and ABMB **(BUY, TP: RM4.26)**.

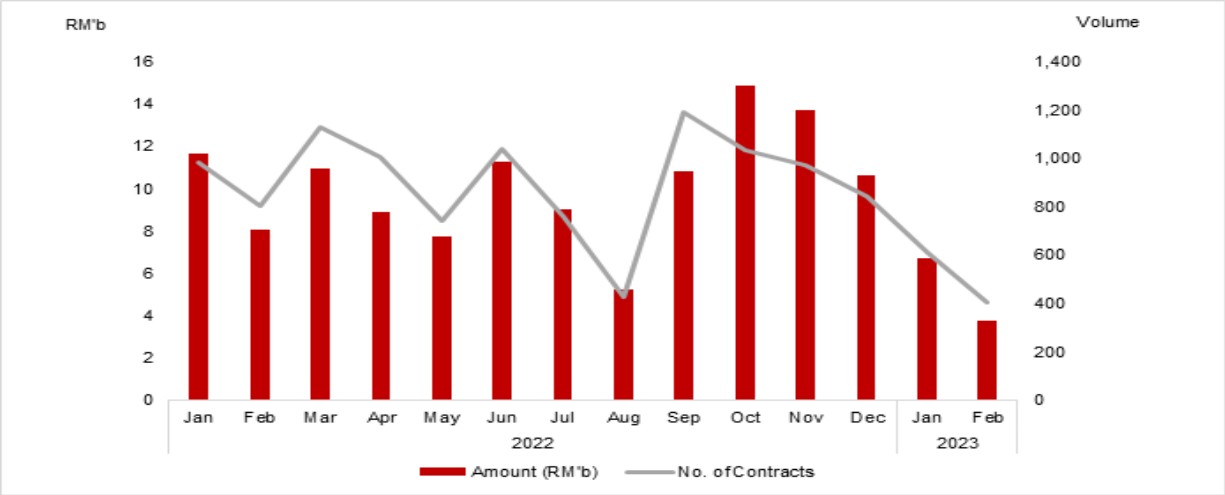
III. CONSTRUCTION

Pinning on the budget.....Maintain POSITIVE

Operations at full capacity. Our economics team forecasted a +4.7% growth for the construction sector in 2023, a slight improvement over the expected +3.5% for 2022. This is projected to come from stronger progress billings as contractors can now operate at full capacity. Data from the Department of Statistics Malaysia (DOSM) showed that the value of work done in 4QCY22 grew +15.7%yoy (3QCY22: +23.2%yoy) to RM32.0b (3QCY22: RM30.5b),

driven by civil engineering (37.9%), non-residential buildings (30.1%), residential buildings (21.8%) and special trade activities (10.2%). Overall in 2022, the construction sector rebounded +8.8% with a value of work done of RM121.9b, after two years of decline. We note that this still lower than the pre-pandemic period of RM146.4b in 2019. This can be attributable to the dwindling number of jobs in recent years and even in recent months, with four consecutive months of decline in value and volume of contracts until Feb-23. We still hold on to our view that the current outstanding order book levels for companies under our coverage are sufficient to tide them through the year. We expect CY23 to be a better year for contractors, especially given the boost by the recently tabled Budget 2023. Though no mega projects were announced except for the revision of costs to the MRT3 by -10% to RM45b, there are a slew of infrastructure works and public utilities jobs that were announced, which should translate to stronger job flows for both large and small contractors.

Chart 31: Value and Volume of Contracts



Source: CIDB, MIDFR

MRT3 to excite the sector. The MRT3 mega rail project remains a crucial element to give the Malaysian construction sector a boost. As the Government is currently reviewing the project to reduce its cost by RM5b and taking into consideration the land acquisitions that have to be made for the project, we do not expect anything substantial to be rolled out in 2QCY23. Industry talks suggest that there would not be major changes to the project and that cost savings would come from project management and construction optimisation and minor tweaks to the alignment that could avoid the need to purchase higher valued lands. The earliest timeline for anything substantial to be announced or awarded would be by 2HCY23, in our opinion.

Possible impact to margins. We expect contractors to incur higher costs possibly over the next quarter in light of the ongoing rise in the average price of steel bars, which has risen for the second consecutive month in Feb-23 by +1.9%mom to RM3,672.62 per tonne, though this is still -5.9% lower than its peak of RM3,901.81 in Jun-22. The rise in prices was due to the continuous price ascension of iron ore, the main raw material for steel. China's Dalian Commodity Exchange (DCE) Iron Ore Futures rose +57.8% from 31 Oct 2022 to CNY928 per 100 tonne on 15 March 2023 on the back of optimism of higher demand from China following the reopening of its borders in January. Chinese authorities have been coming down hard on iron ore hoarders and speculators in order to curb any further surge in prices. China is also cutting down its crude steel production this year, which is expected to weigh on iron ore demand. The price of iron ore futures has since declined -8.9% to CNY852.5 as at time of writing.

Maintain POSITIVE. We reiterate our positive view on the construction sector, as the revised Budget 2023 that was tabled in Feb-23 provides much excitement in terms of the possible job flows in the market from roads and ports

to public buildings and flood mitigation projects. The rise in steel bar prices, though a short-term pain, remains manageable by most contractors and we do not expect this to be a protracting issue with the commitment from authorities in China to curb speculation in prices and the slashing of the country's crude steel production, which will ease the expected tightness in iron ore demand, thus bringing down its prices. This should allow margins of contractors to improve moving forward. Our preferred names for the sector are still the larger capitalised players, those with stronger balances sheets and strong overseas presence, such as **Gamuda (BUY, TP RM5.04)**, **Sunway Construction (BUY, TP: RM2.00)** and **IJM Corp (BUY, TP: RM1.90)**.

IV. CONSUMER

Going from strength to strength.....Maintain POSITIVE

Solid retail sales in 1QCY23. The Department of Statistics Malaysia ("DOSM") reported a 10th consecutive double-digit growth in retail sales in Jan 2023 (+21.7%yoy). Monthly retail trade in the first month of 2023 remained strong (+0.2%mom), but at a slower rate than in Dec 2022 (+1.2%mom) and Nov 2022 (+0.7%mom). Nonetheless, despite a higher OPR of 2.75% in Jan 2023 compared to 1.75% in Jan 2022, the retail trade remained healthy and continued its rising trend. Meanwhile, Consumer sentiment index (CSI) as reported by the Malaysian Institute of Economic Research (MIER) surpassed the optimistic threshold of 100.0 points to 105.3 points in 4QCY22. The sentiment was a reverse from 98.4 points in 3QCY22 to positive sentiment due to improved employment and income prospects, as well as easing inflationary pressure. Looking ahead, MIDFR economists anticipate that the OPR rate will remain unchanged at 2.75% in 2023, potentially supporting domestic household income and boosting domestic spending. Furthermore, retail sales are likely to continue strong in 2023 because of: (1) lessening inflationary pressures, (2) a stable labour market, (3) various cash assistance and incentives presented in Budget 2023, and (4) increased tourist arrivals, which promote domestic spending. This is beneficial to retailers like **Aeon Co (BUY, TP: RM1.90)** and **Padini (BUY, TP: RM4.40)**.

Falling raw material costs for F&B producers, but poultry farmers continue struggling with high raw material prices. The average price of nine commodities that we were tracking as of 23 March 2023, dropped on an annual basis. Namely skimmed milk powder (-39%yoy), CPO (-34%yoy), wheat (-31%yoy), whole milk powder (-23%yoy), PET resin (-18%yoy), corn (-15%yoy), and white sugar (-2%yoy). In the meantime, raw sugar (+5%yoy) and soybean meal (+24%yoy) both increased as of 23 March 2023. Given that soy meal and corn prices move in opposite directions, we expect the production cost for poultry players to remain volatile. The continued high average price of soybean meal could more than offset the decline in corn prices. For poultry companies like **Leong Hup International (BUY, TP: RM0.90)** and **QL Resources (BUY, TP: RM6.80)** the impact of rising raw material costs will be more than offset by ongoing government subsidies for chicken and eggs until June 2023, economies of scale, and the flexibility to adjust the price with the potential removal of the price ceiling for chicken and eggs after June 2023. The impact of rising raw sugar costs is manageable for food manufacturers. This was due to several price modifications made in the year before, declining prices of other raw commodities like wheat and CPO, which may have more than eliminated the effect. Meanwhile, we saw the lower raw materials price for beverage producers (skimmed milk powder, white sugar, whole milk powder and PET resin), which could lower the cost of production for beverage producers such as **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Spritzer (BUY, TP: RM2.80)**.

Table 4: Average Monthly Raw Material Statistics for Mar-23

Sub-sector	Data (USD/mt)	Average Monthly Data				
		23-Mar (mtd 23/3)	23-Feb	22-Mar	YoY (%)	MoM (%)
Food Producers	Wheat	26,237	28,253	38,001	-31.0	-7.0
	Raw Sugar	44,035	42,634	42,008	5.0	3.0
	Crude Palm Oil	946	922	1,433	-34.0	3.0
Beverage Producers	White Sugar	892	873	907	-2.0	2.0
	PET Resin	1,084	1,096	1,325	-18.0	-1.0
	Whole Milk Powder	3,262	3,408	4,220	-23.0	-4.0
Livestock Producers	Skimmed Milk Powder	2,786	2,808	4,544	-39.0	-1.0
	Soybean Meal	546	543	440	24.0	0.0
	Corn	22,467	25,967	26,343	-15.0	-13.0

Source: Bloomberg, MIDFR

Sluggish demand for wooden furniture. Given the anticipated global economic downturn and the fact that the US is the largest importer of made-to-order hardwood furniture, we expect the demand for custom-made wooden furniture to continue to be subdued in 2QCY23. We gather that the US importer of wooden furniture has an overstock of inventory in their warehouse due to reduced demand because of substantial consumer purchases made during the pandemic for work-from-home purposes. Meanwhile, major durable products such as wooden furniture, typically last for many years, which further diminished the need to buy. Based on our channel check, consumers now prefer to spend money on needs and travel rather than purchasing wooden furniture post-reopening. The rising inflationary pressure in the US has compelled households with various mortgage loans to convert their preference to furniture that is more reasonably priced. Note that custom-made wooden furniture is pricey and mostly targets individuals with upper-middle-class incomes and above. Overall, we think that the demand for custom-made furniture in the US will remain weak in 2QCY23. Fewer orders from furniture retailers will have an impact on the sales of furniture companies such as Rhong Khen International (NEUTRAL, TP: RM1.35).

Weak demand for office supplies products. The demand for office supplies products such as plastic folders, filing boxes, storage boxes, Level arch files, clipboards, and office accessories and to name improved slightly in 1HFY22 due to the return to office post-economy reopening. However, the demand reversed again in 2HFY22 with the higher inflationary pressure coupled with tightening monetary policy across the world has caused business to reduce their spending on non-necessary products such as office supplies. Together with the growing trend of paperless to reduce carbon footprint would further weaken demand for office supplies. As a result, we anticipate that the soft demand for office supplies would persist in 2023, putting upward pressure on office supply producers such as Asia File (NEUTRAL, TP: RM1.60).

Stronger ringgit benefit consumer staples. The MYR depreciated (+4%yoy) to RM4.37/USD in Feb 2023, due in part to the Fed's faster-than-expected and aggressive interest rate hike. Looking forward, our economists expect the MYR to average higher at RM4.20/USD and end-2023 at RM4.00. This is owing to the MYR's fundamentally strong position as the domestic economy continue to be robust. We believe that a stronger MYR will lower the cost of USD-dominated raw materials such as wheat, raw sugar, white sugar, PET resin, soybeans, and corn. This will benefit all F&B and poultry companies. Export-oriented companies such as Asia File (NEUTRAL, TP: RM1.60) and Rhong Khen International (NEUTRAL, TP: RM1.35), on the other hand, will be impacted by the stronger MYR because its revenue is largely in USD.

Maintain POSITIVE on consumer sector. Overall, we think that the top line for consumer-staple-related companies

will remain solid in 2QCY23 due to its inelastic demand. Meanwhile, the strong net cash position of the two discretionary companies, namely Asia File and Rhong Khen International could potentially shield against the various challenges. We are POSITIVE on consumer sector underpinned by: (1) a stable labour market that supports domestic consumption, (2) high tourist movement, which supports retail sales and out-of-home consumption, and (3) better margins for F&B producers supported by the lower commodity prices and a stronger MYR. Given the inelastic demand for essential items, we continue to prefer consumer staple-related companies such as **QL Resources (BUY, TP: RM6.80)**, **F&N (BUY, TP: RM33.50)**, and **AEON (BUY, TP: RM1.90)**. We like QL Resources underpinned by the steady demand for marine and livestock products. We also like F&N because the company is likely to benefit from the rising demand for ready-to-drink beverages, which is being fuelled by an increase in tourist traffic. As for AEON, we believe that general merchandise stores (GMS) and supermarkets will continue to see solid sales in the near term, supported by strong domestic demand and an increase in tourist arrivals.

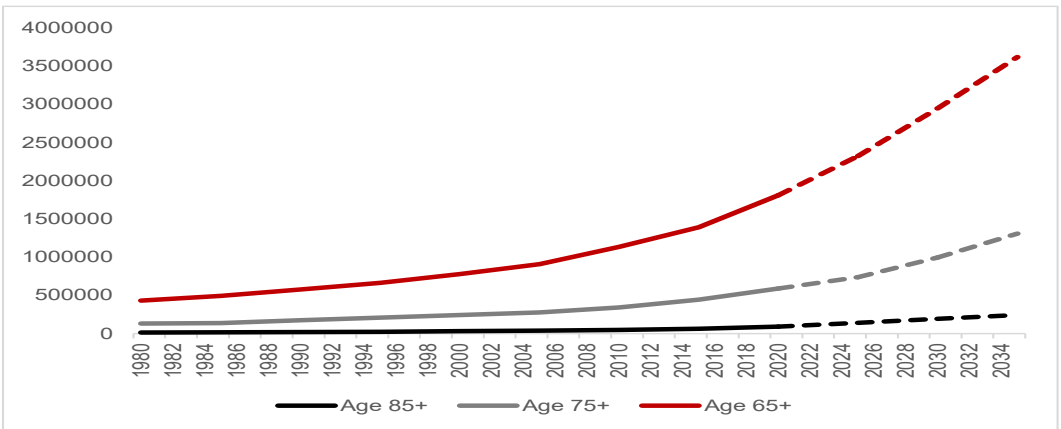
V. HEALTHCARE

Treatments for NCDs & rare diseases take centre stage post-pandemic.....Maintain POSITIVE

The Covid-19 pandemic had accelerated the adoption of digital healthcare and improved the delivery of medical care, equipment and medication with more weight on sustainability and security. Nevertheless, global healthcare continues to see challenges in workforce availability and supply chain for equipment and drugs, in catching up to the growing aging population and unforeseen breakouts of diseases in the next 10 years. Coming into 2QCY23, the sector is expected to remain robust, in consideration of: (i) the leverage on technology for care deliverance, (ii) increased number of healthcare workers, (iii) improved drug, access and treatment translated from the Covid-19 pandemic, and (iv) undisrupted supply chain for medical equipment on the expected balance in supply-demand as well as recovery of semiconductor chips.

Hospitals to maintain a strong performance. In addition to the recovery from the pandemic, the newly revised Budget 2023 had seen a slightly higher allocation to the Ministry of Health (MoH); amounting to RM36.3b, which is the second highest allocation in Budget 2023. We believe this will continue to assist healthcare service providers, both public and private, to ensure the sustainability of its medical workforce, diagnoses and treatments, as well as special care for rare illnesses. Additionally, the return of tourists into Malaysia bodes well for the recovery of medical tourism. While the short-term outlook for the healthcare service providers remains sanguine, long-term risks continues to loom in the form of: (i) medical equipment shortage, (ii) inflationary pressures causing higher operational costs, (iii) a sudden resurgence of a communicable diseases or a new Covid-19 variant, and (iv) sudden changes in policies for healthcare providers under political or geographical mandates.

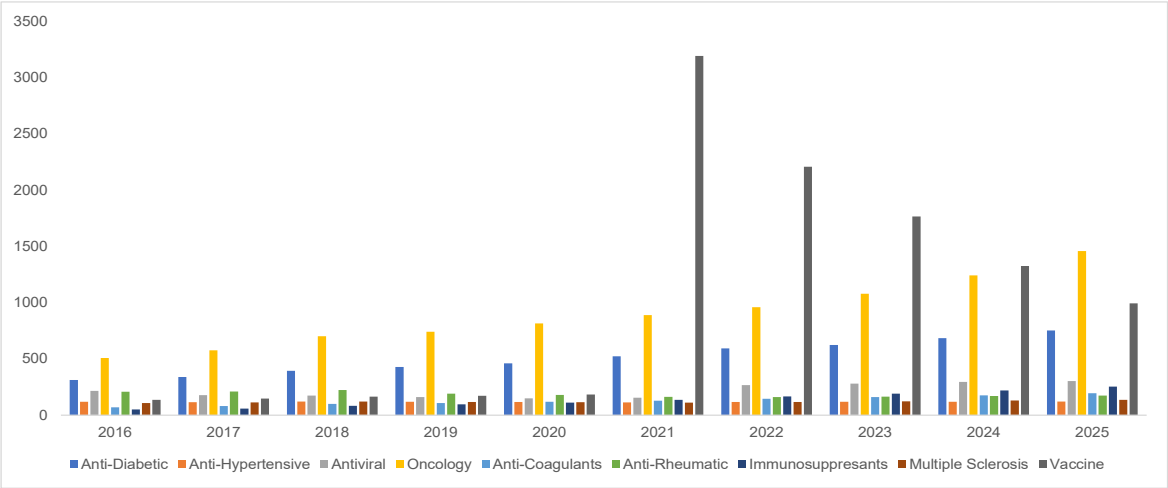
Chart 32: Malaysian Aging Population (Forecast)



Source: Macrobond, MIDFR

Higher competition in pharmaceuticals. The new government had been in talks to impose a more competitive environment for industry players in ensuring the integrity and the efficiency of products and services provided. In the short-term, pharmaceutical companies are expected to see more regulation in terms of its operations and the products it manufactures. Despite the estimated growth in revenue for the subsector - an estimated 5-Year CAGR of +2.8% - near-term risks still remains, and they include: (i) higher pricing of drugs, (ii) availability of active pharmaceutical ingredients, and (iii) immediate changes in drug and drug company regulations following the new national governance. Additionally, we are expecting pharmaceuticals company to minimize stocks and amend contracts pertaining the import and manufacturing of Covid-19 vaccines. Although Covid-19 maintains to be a threat, as only 70% of the world's population were vaccinated against it, the demand for the drug – subsequently the national revenue – is projected to decline in 2QFY22.

Chart 33: Malaysian Revenue of Medical Drugs (Forecast) (RM'm)



Source: Macrobond, MIDFR

Maintain POSITIVE. All in all, we reiterate our positive view of the healthcare sector and its short-term trajectory post-pandemic. The demand for inpatient treatments for non-communicable diseases (NCDs) and rare illnesses after the severity of Covid-19 infection is expected to continue rising, in tandem with the increase in medical tourism. In line with Budget 2023, we believe the adaptation of digital healthcare, service access and precision treatments will continue to be the main focus in 2QCY23. Meanwhile, pharmaceuticals are expected to see a rise the demand for drugs to treat NCDs, chronic diseases and rare illnesses, with the exception of Covid-19 vaccines. Companies are expected to mitigate its production from vaccines in the near term. The challenges ahead remain to be: (i) regulatory issues, (ii) pricing of the products and services, (iii) interest rate hikes, and (iv) cost of drugs and medical equipment. Nevertheless, we believe the sentiment on the healthcare sector will continue to be supported by the local government in CY23.

Our **top pick** remains to be **IHH Healthcare (BUY, TP: RM6.91)** for the sector. We like IHH for its financial resiliency and proven capability to mitigate against headwinds, including shortages of medical equipment and healthcare workers.

VI. MEDIA

Recovery in Adex.....Maintain POSITIVE

Adex. Data from Nielsen showed that the advertising expenditure (adex), excluding digital in 2022 rose by +5%yoy to reach RM5.2b, supported by the year-end utilization of marketing budgets by advertisers and the implementation of festive promotional campaigns. Nevertheless, adex declined by -17%mom to RM0.4b in January 2023, mainly due to the overall reduction in adex across TV (-12mom), newspaper (-25%mom), radio (-24% mom), and other mediums (-38%mom). This reduction in January 2023 was anticipated, as the first quarter's adex typically weakens seasonally. Moving forward, we predict that adex will increase by 4-5% in 2023F, buoyed by a more robust travel industry and greater advertising expenditure.

Omnichannel. The provision of an omni-channel platform poses a challenge, yet it serves as a catalyst for media players, as the omni-channel market continues to grow and is highly essential in this era of digitalization. Since MPR Omnia's inception in 2020, its collaborations with global brands such as Samsung, Shopee, Lazada, Foodpanda, and Disney+ Hot Star have brought tremendous benefits to the companies in terms of rapid growth in Malaysia. We believe that leveraging this omni-channel platform strength provides media companies with better performance prospects in 2023.

Home shopping. The home shopping segment is expected to persist in affecting earnings, as customers return to physical stores. The delivery costs associated with the sales of home shopping escalate proportionally, leading to the losses incurred. Nonetheless, it is worth noting that the contribution of home shopping to the revenue of MPR and Astro is minimal and diminishing. In the case of MPR, the segment constituted 24% of the revenue in FY21 and 15% in FY22, while for Astro, it accounted for 10% of the topline in 9MFY22 and 5% in 9MFY23. Importantly, given that most goods are consigned, it is unlikely that losses in the home shopping segment will exacerbate.

Maintain POSITIVE. We maintain our positive stance on Media sector despite the persistent macroeconomic challenges. Our conviction stems from our belief that media companies have ample room to expand, particularly **Media Prima Berhad (BUY, TP: RM0.60)** through the utilization of its expertise in OMNIA to facilitate remarkable feats for its global partners, and **ASTRO (BUY, TP: RM0.89)** for its appealing dividend yield.

VII. OIL AND GAS

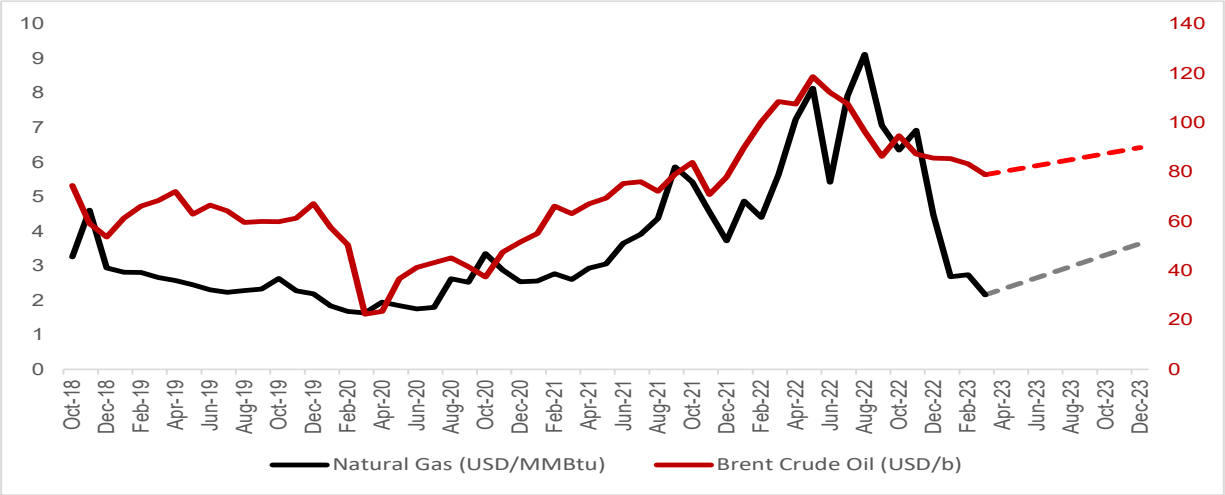
Robust upstream & midstream expected in 2QCY23 amid volatile oil prices.....Maintain POSITIVE

Rising consumption amid tight supply. Following China's full economic reopening in early CY23, as well as the EU sanctions on Russian crude oil and petroleum products, had left a slight shift in balance between the already tight crude supply, and rising demand for petroleum products. Additionally, the uncertainties posed by inflationary pressure had been the key challenge in CY23 for the industry. With the accumulated sentiments on: (i) hiking interest rates projecting into a potential economic recession, (ii) energy security issues in Europe elevated by the continuous Russian-Ukraine war and Russian sanctions from the energy market, and (iii) recent bank collapses in the US, we believe crude oil prices will be supported in a stabilized and elevated range of USD70-90pb.

At the time of this writing, we are expecting a yearly average of USD86pb for CY23. Meanwhile, natural gas prices had declined over -78% since Aug CY22; trading at an average of USD2.1pMMBtu YTD. As pressure of weak demand increased and oversupply was reported in inventories due to the fear of Russian LNG loss and increased production for clean energy fuel, we expect natural gas and LNG prices to remain on the low in 2QCY23. We maintain our projection for natural gas to trade at a yearly average of USD4pMMBtu. Overall, we are expecting

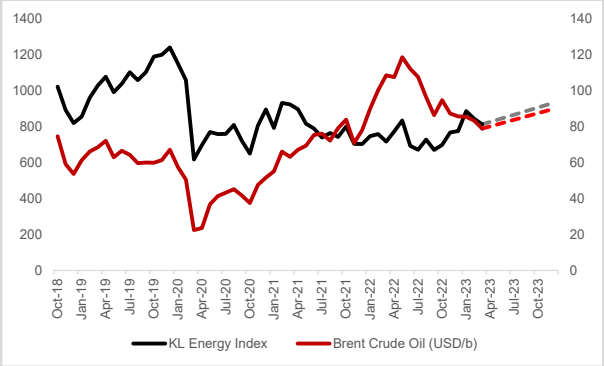
both crude oil and natural gas to remain lower than CY22's average, but stabilised in 2QCY23.

Chart 34: Brent Crude Oil Price and Natural Gas Price



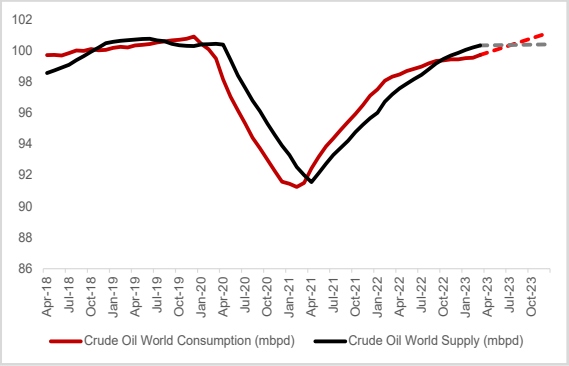
Source: Macrobond, Bloomberg, MIDFR

Chart 35: KLEN vs. Brent Crude Oil



Source: Macrobond, Bloomberg, MIDFR

Chart 36: World Oil Supply vs. Consumption



Source: Macrobond, MIDFR

While we believe the sector is set to be robust in 2QCY23 for our local front, the headwinds still loomed over the upstream, midstream and downstream:

UPSTREAM

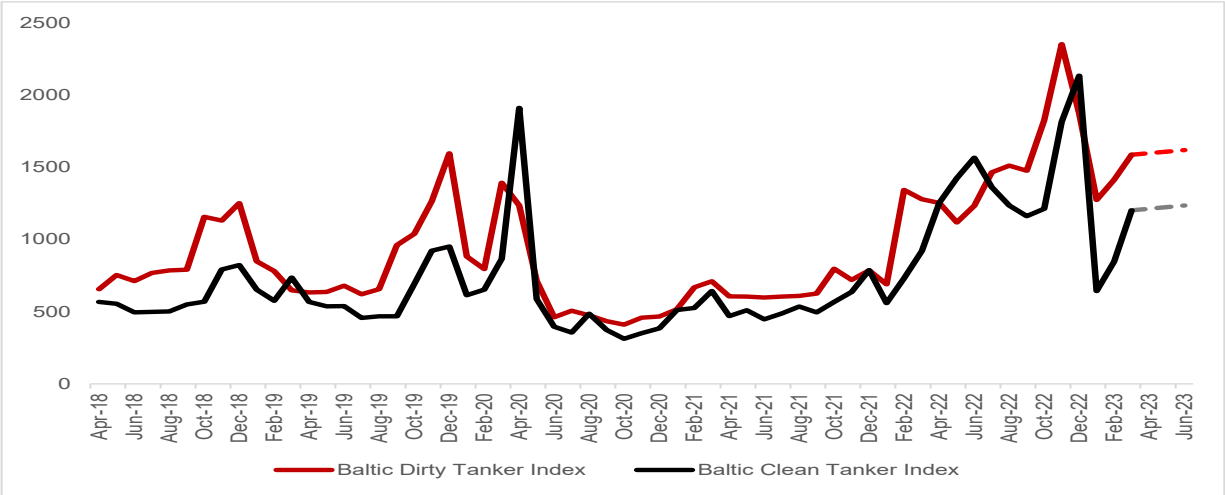
Upstream projects consisting of exploration and production (E&P) activities which includes floating production and storage (FPS) and drilling rigs, has now recovered back to pre-pandemic levels. Halted projects had returned back to its original timeline, while new offshore projects had begun to mushroom globally. The key catalyst to the upbeat in upstream remains to be the elevated oil prices. Despite the -15% decline YTD from CY22 average, spot prices are still valued within the operational threshold for major upstream players; often ranging from USD50-70pb, depending on geographical location and reserve volume. For our Malaysian front, we anticipate that E&P activities and FPSOs will continue to benefit the still elevated oil price, hence we maintain positive for the upstream.

MIDSTREAM

Similar to the upstream, the rising energy demand post-pandemic had caused an increase in demand for shipping operations, in tandem with the increasing tanker rates due to the end of winter and China's border reopening. While we expect a tight competition for dry-docking and maintenance activities, the demand growth worldwide

for tankers and petroleum cargo ships continues to be the main catalyst to the shipping subsegment. Additionally, new pipeline constructions and storage facilities, most notably in Europe, as the Russia-Ukraine war had emphasized the importance of inter-nation energy security in the long run. For Malaysia, we opine that existing facilities will be business as usual. Nonetheless, pipeline gas transportation is expected to be affected by higher fuel gas prices, potentially lowering sales in 2QCY23. This is due to the laggard effect of the natural gas pricing in the sales volume for gas transportation and regasification activities. Meanwhile, storage farms are expected to continue recovering its stockpiles, more so given the current lower crude oil and natural gas prices. Barring sudden disruptions to demand and pricing, inflationary prices, volatile forex rates and higher competition, we reiterate our positive view for the midstream.

Chart 37: Baltic Clean Tanker Index and Dirty Tanker Index



Source: Macrobond, Bloomberg, MIDFR

DOWNSTREAM

Increasing travel demand, the recovery of the tourism industry and increasing manufacturing activities are expected to continue contributing to retail and industrials sales of fuel products. The reopening of international borders and the upcoming festive season in 2QCY23 remains to be the main support for the retail fuel subsegment. However, the petrochemical subsegment is facing the risks of higher operating cost and volatile feedstock prices. Petrochemical feedstocks in Malaysia were reportedly filled, albeit a slower demand for certain petrochemical products. Olefins and derivatives are expected to see a growth in demand in 2QFY23; attributable to China's economic reopening. Fertilizers, urea, methanol and other specialty chemicals however are expected to see a weak downstream demand, taking cue to growing inflationary pressures. Overall, downstream is facing challenges in growth in terms of: (i) high feedstock prices, (ii) limited LNG contract availability, (iii) infrastructure constraints, and (iv) inflationary pressures on operating costs. We maintain positive for fuel product sales coming into, albeit the uncertainties on the demand side for non-fuel petrochemical products.

Additional: ESG

Global investments in oil and gas projects, especially in the upstream, had not fully picked up to normal levels since the pandemic low, despite the rise in demand for fossil fuels. As of current, the average decline in global oilfields utilization is approximately -6%. The severe divestments in energy supply; driven by pressure from governments and environmental advocates, as well as investors and banks, has been a major provocation for the current energy crisis. Upstream spending globally has fallen from around USD700b in CY14 to between USD370-400b as of Feb CY23, despite the continued high demand for oil and gas. Petronas's recent fixed capex allocation

of RM300b for CY23 in the span of 5 years is necessary not only to maintain a robust operation in the upstream, but also to ensure a smooth and orderly energy transition and subsequently upholding the ESG promises of a Net-Zero Carbon Emission and Decarbonisation movements. In the near-term, we opine that major O&G players and OGSE firms will continue to observe its ESG commitments.

Maintain POSITIVE. Overall, we continue to see the oil and gas sector in a positive light. We opine that the upstream operations will remain strong in 2QCY23, as crude oil and natural gas prices are expected to be stabilized despite lower pricing than the average of CY22, in line with the growing demand for petroleum products in post-pandemic CY23. As such, we anticipate that OGSE companies will be in full competition for upstream projects in the near-to-mid term. Consequently, the midstream, will also see a surge in performance, as tanker rates are sharply increasing coming into the next quarter, pushing demand for shipping higher in tandem with the recovery of the upstream. However, we are cautious of the downstream, despite the increase in fuel demand for aviation, transportation and logistics, as well as manufacturing industry. Lower demand for certain petrochemicals due to higher cost and volatile feedstock prices is expected to persist in 2QCY23.

Our **TOP PICKS** are: **Dialog (BUY, TP: RM3.28)** for integrated operations, **MISC (BUY, TP: RM8.16)** for Upstream, **Petronas Gas (BUY, TP: RM18.43)** for Midstream and **Petronas Chemicals (BUY, TP: RM10.82)** for Downstream.

VIII. REITS

Positive outlook intact.....Maintain POSITIVE

Tapering of MGS yield. The 10-year Malaysian Government Securities (MGS) yields raised to above 4.5% in October 2022 due to hike of interest rate by Federal Reserves and OPR hikes in Malaysia. The increasing MGS yield hampered interest on REIT as higher MGS yield reduced attractiveness of REIT. Nevertheless, MGS yield tapered down to below 4% in March 2023 as BNM paused its rate hike. Looking ahead, we expect MGS yield to remain below 4% as our economist expect BNM may continue to maintain OPR at 2.75% for the rest of 2023 due to uncertainty over local and global market conditions. In a nutshell, the tapering of MGS yield is positive to REIT as it widened spread between 10-Year MGS Yield and yield of REITs and thus increases attractiveness of REIT for yield seeking investors.

Solid performance of retail REIT. Most of the retail REIT reported earnings growth in CY22 due to recovery in rental income and lower assistance to tenants. Tenant sales and shopper footfall recovered to pre-pandemic level post reopening of economy. That led to rental reversion of shopping malls in prime location returning to positive territory in CY22. Looking forward, performance of retail REIT is expected to remain steady particularly for REIT with mall in good location such as IGB REIT, Sunway REIT, Pavilion REIT and KLCCP Stapled Group. Besides, retail spending is also expected to be supported by festive season in 2QCY23 and higher tourist arrival. Hence, we expect stronger tenant sales in 2QCY23 and rental reversion to remain in positive territory.

Industrial segment remains defensive. Earnings performance of industrial REIT was encouraging, relatively unfazed by Covid-19 pandemic as demand for industrial space remained strong. Despite consumers shop at physical store post reopening of economy, consumers remain shopping on-line and that supports demand for warehousing space. Meanwhile, the defensiveness of industrial assets attracted interest of several REITs such as KIP REIT and Capitaland Malaysia Trust (CLMT) venturing into industrial space. We see that the growing competition among REITs in the industrial space may compress acquisition yield for industrial assets going forward.

Hotel industry sees light at the end of tunnel. Hotel industry is expected to turnaround in CY23 due to growth in domestic tourism and higher tourist arrival. Recall that hotel industry suffered from heavy losses in CY20 and CY21 due to closure of country border. With recovery of tourism industry and opening of more country borders

particularly China, tourist arrival is expected to increase significantly in CY23 and that will support recovery of hotel industry. Occupancy rate and average room rate (ARR) of hotels improved in 2HCY22 post reopening of economy and we expect further recovery of occupancy rate and ARR in CY23 due to higher tourist arrival. In this context, we expect REIT with exposure to hotel industry namely Sunway REIT and KLCCP Stapled Group to see better earnings contribution from hotel division.

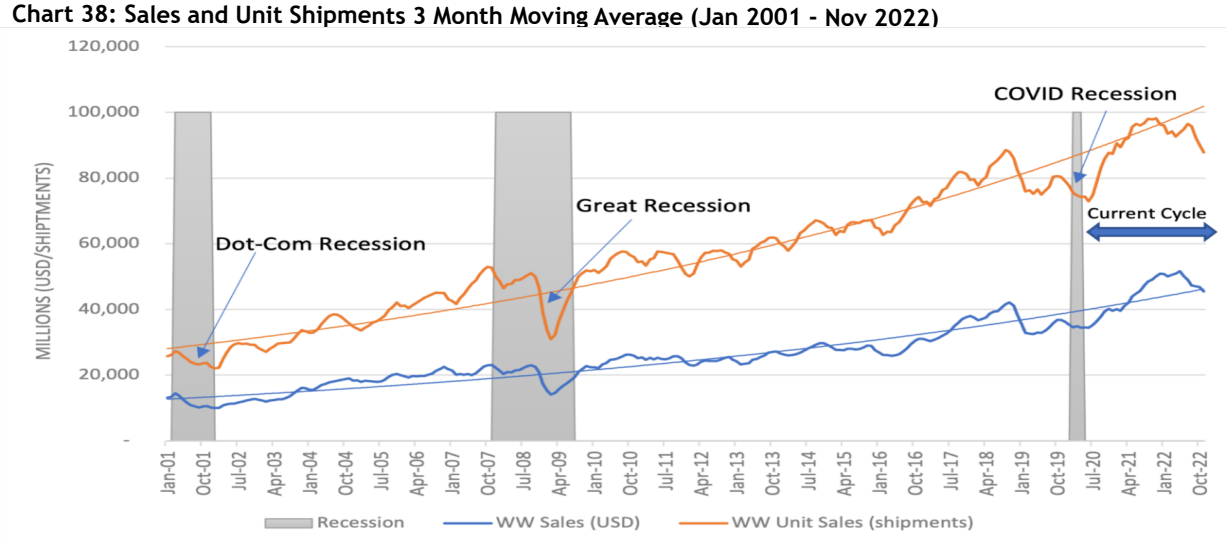
Maintain POSITIVE on REIT. Overall, we see earnings of REIT with exposure to retail and hotel industry to improve further in CY23 due to recovery of consumer spending at malls and higher tourist arrivals. Similarly, industrial REIT namely Axis REIT is expected to report stable earnings due to solid demand for industrial space. In a nutshell, we are positive on earnings outlook for REIT in CY23 which offer decent average yield of 5.3%. Hence, we maintain POSITIVE on REIT with top picks are IGB REIT (BUY, TP: RM1.86) and Sunway REIT (BUY, TP: RM1.73).

IX. TECHNOLOGY

Challenges will not stop tech.....Maintain POSITIVE

Global semiconductor sales. The global semiconductor industry had a strong year in 2022, but a significant slowdown in the second half was caused by factors like inflation, geopolitical unrest, and decreased consumer spending on electronics. Despite this short-term challenge, we opine that the long-term outlook is positive due to growing demand for semiconductors in critical technologies like AI, IoT, EV and 5G. This is evident as the semiconductor industry portray consistent growth over the last two decades, despite the short-term demand fluctuations as per illustrated in Figure 1 below. Annual sales have climbed from USD139b in 2001 to USD573.5b in 2022, showing a remarkable increase of +313%. Over this same period, unit sales of semiconductors have increased by 290%, reflecting the increased demand for semiconductors throughout the economy. Looking at this trend, we believe that global demand for semiconductor manufacturing capacity could rise by +56% by 2030, as predicted by SIA and Boston Group Consulting.

Chart 38: Sales and Unit Shipments 3 Month Moving Average (Jan 2001 - Nov 2022)



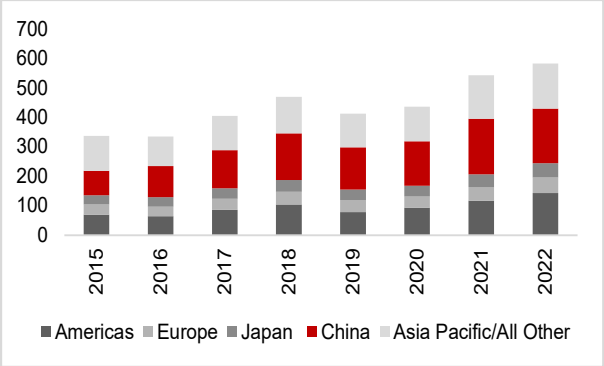
Source: WSTS, SIA, MIDFR

Chips War. In recent months, the US has implemented restrictions on the sale of chips to China and the employment of individuals by Chinese companies. In parallel, it has directed its attention to the chip industry's supply side, offering substantial federal subsidies to entice manufacturers to return to the US. Similarly, other governments in Europe and Asia that are home to major chip companies have enacted comparable policies to protect their positions in the industry. As these changes continue to take hold in 2023, they will introduce more restriction to

semiconductor industry that has long relied on globally dispersed supply chains and significant freedom in selecting business partners. Nonetheless, China's inability to purchase chips from the US created an opportunity for Malaysia, which is a major producer of semiconductor assembly, to cater to China's domestic chip needs. The ongoing US-China trade tensions have resulted in a geographical shift in the supply chain, leading to Malaysia's technology sector, mainly in outsourced semiconductor assembly and test (OSAT) and automated testing equipment (ATE) segments, to benefit significantly. We believe our domestic players such as Inari who is expanding their presence in China could capitalize on the semiconductor boom.

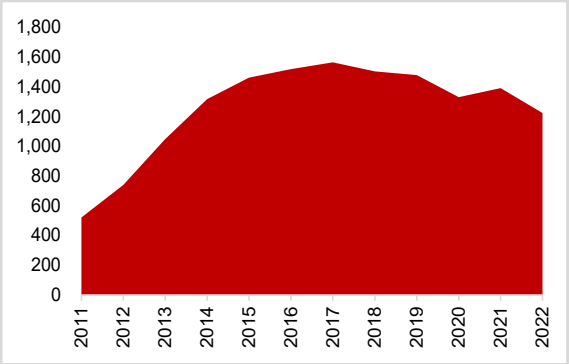
Booster from China. The reopening of China's economy following the COVID-19 pandemic is expected to provide a significant boost to the semiconductor industry. China's manufacturing activity expanded at the fastest pace in more than a decade in February, smashing expectations as production zoomed after the lifting of COVID-19 restrictions late last year. The recovery of manufacturing activities in China and an increase in the purchasing managers' index (PMI) signal the country's economic strength. Additionally, China is a major consumer of semiconductors, and the resumption of economic activity in the country is expected to increase demand for electronic devices and components. Thereby, we opine that the China's economy reopening will provide better booster for semiconductor sales.

Chart 39: Global Semiconductor Sales by Region (USD'b)



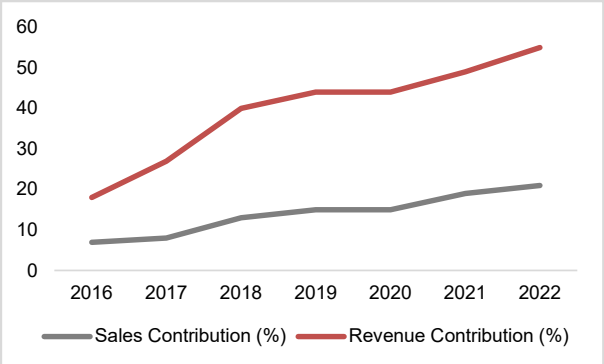
Source: Statista 2023, MIDFR

Chart 40: Global Smartphone Shipments ('m units)



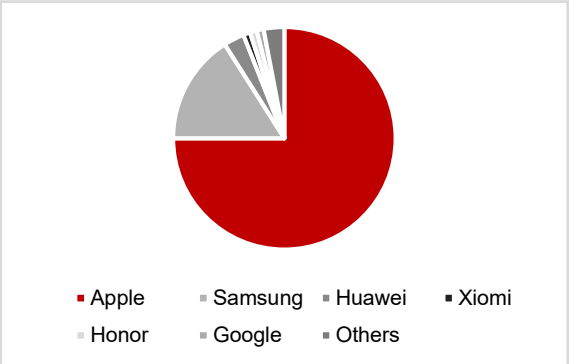
Source: Counterpoint, MIDFR

Chart 41: Premium Market Sales & Revenue Contribution



Source: Counterpoint, MIDFR

Chart 42: Top OEMs; Market Share for Premium Segment



Source: Counterpoint, MIDFR

Smartphone market. Despite the overall decline of the smartphone market, sales of premium devices which constituting more than half of the global smartphone revenue in 2022 remained solid. The sales of premium devices, with a wholesale value of USD600 or more, increased by +1% in 2022 compared to the previous year. Apple dominates the premium smartphone segment, with a colossal 75% market share, and its revenue would have been even greater if it were not for the supply constraints for the iPhone 14 Pro and Pro Max. The decline of Samsung, Huawei and Xioami market share by -5%, -44%, -40% also contributed to Apple's success. People buying premium smartphones are willing to pay extra for better features, which is driving sales of devices worth

more than USD1,000, increasing by +38% in 2022 compared to the previous year. Amid the harsh economic landscape of 2022, we viewed affluent customers exhibited greater resistance to macroeconomic challenges than their lower-end counterparts. This led to a notable increase in sales for premium products while entry and mid-tier segments experienced a decline. Additionally, developing markets, such as India, are also increasingly upgrading to premium smartphones, which could provide companies like Apple with significant growth opportunities.

Tech talent is still very much needed despite massive tech layoffs. Despite the recent massive tech layoffs that have spooked workers and investors, tech talent is still in high demand. The monthly layoff rate in tech companies through 2022 was hovering around 1% of the workforce or around 1.4m people, which is even lower than the pre-pandemic numbers. The headlines about significant layoffs in big tech companies such as Meta and Amazon are more salient because they had hiring spree and experienced outsized growth during the pandemic. To note, despite significant number of retrenchments in their workforces, these companies are still investing in building future technology, such as Meta's spending on Reality Labs and Microsoft's investing in ChatGPT-maker OpenAI. Although we might not see an uptick in overall hiring, employment figures could continue to increase, and certain industries will show outsized growth on the back of digitalisation that will continue to penetrate industrial sectors beyond tech and consumer goods. Thereby, we opine that the layoffs in tech should just be viewed as small adjustment in the sector.

Maintain POSITIVE. Overall, while the semiconductor market is currently facing challenges, the industry is expected to grow in the long term, driven by the demands from emerging technologies and the global digital transformation, as well as the reopening of major economies such as China. We reiterate our **POSITIVE** stance on this sector in 2023 with our top pick **Unisem (BUY, TP: RM3.72)** given their diverse product portfolio catering various end market segments and **D&O technologies (BUY, TP: RM5.10)** due to their bright automotive LED products prospects.

X. PLANTATION

A short-lived momentum.....Maintain NEUTRAL

Price to remain high but not for long. Jumping into 2QCY23, we anticipate that Indonesia's supply distortion would have a cascading impact, driving the CPO price up to an average of RM4,288.0/t in April before easing to RM3,837/t in May and RM3,251/t in June. The volatility behind price remains persist, in confluence of a rebound in output to an increase of closing stocks, continuation of Indonesian export prohibition and zero levy export duty for PO export in which to be start in May (after Eid al-Fitr festival). On the external front, we have seen the CPO price traded in reversal mode against Soybean, lowered by USD293.0 to USD949.9/ Mt, with discount vis-à-vis SBO price narrowed at USD293.0/Mt (-28.5%mom) in February. However, it is wider on-to-date to USD351.4/Mt (+254.7%Ytd) following on firmer soybean, due ongoing supply shortage from Argentina particularly, where its soybean production plummeted as drought continues to strain the crop in key growing regions.

Production recovery continues. Based on MPOB data, we have seen Malaysia production recovery is on track, as February data showed that production improved to 1.25m tonnes (-9.4%mom; +10.0%yoy; +10.1%Ytd) versus 1.14m tonnes in prior year supported by contribution from most of the states except for Negeri Sembilan (-1.0%yoy), impacted by uneven weather events of the month. In addition, the average FFB yield continued to rise by +8.7% year-on-year to 1.07 t/ha, while OER inched lower to 19.24% following subdued mills operational on low cycle months, but performance was relatively stable backed by improving foreign labour inflow. We maintain that for 2QCY23, performance will continue to improve since palm trees pollination cycle is now at a tail end and there will be fewer wet days, aided by return of foreign labour shortage (which is now 80% resolved). As a result, an increase +23%qoq to 4.82m tonnes is imminent based on our assumption.

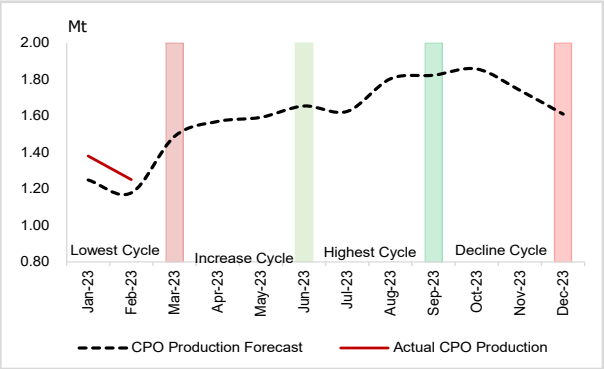
Demand to bounce on festival months. On the flip side, PO export volumes were relatively unchanged in February at 1.11m tonnes (-1.9%mom; +0.3%yoy; -0.8%Ytd), but the value, fell by -14.4%yoy to RM4.6b due weaker demand from India c. RM861.8m (-5.5%yoy), China c. RM313.1m (-15.4yoy) and Turkiye c. RM225.1m (-5.9%yoy) on the back of absence of festival seasons. Moving to the next quarter, we anticipate demand to pick up in the selected Middle-East nations that hold some weight (based on CY22 total trade), such as Turkiye (5.2%), Pakistan (3.6%), Saudi Arabia (3.4%), Egypt (2.3%), and Iran (3.1%), from mid-March to mid-May as people prepare for Ramadhan and the Eid al-Fitr festival.

Fertiliser prices normalising. It seems that the energy crisis across Europe is gradually subsiding, as the fall in natural gas prices decelerated to USD16.5/mmbtu (-18.15%mom, -54.1%yoy) in February, following the import of LNG which replaced some supplies in 2HCY22. This is significant since the cost of producing fertilisers traditionally ranged between 50-60%. We think that this would successfully shift the reliance on Russia to a long-term basis and reduce the risk for chemical companies in European nations in Bulgaria, Slovakia, Germany, Italy, and Poland, where the percentage of their imports from Russia used to be 77%, 70%, 49%, 46%, and 40%, respectively.

As a result, the price of NPK fertiliser may soon return to normal since fertilisers price index have fallen to 167.9 pts (-11.4%yoy) and its input costs (Chart 43) including urea, phosphate, and potassium have stabilised, to to $357.5/Mt (-31.2%yoy), $322.5/Mt (+7.5%yoy), and $562.5/Mt respectively. Therefore, most of the planters will incur lower operational expenses in 2HCY23, at least. However, we believe only a handful of planters used a wait-and-see approach, as the typical industry practise is for fertiliser stocks to be locked in 6-12 months in advance. As to-date, we observe average planter's production cost approximately RM2,000-RM2,500Mt, in which there still some margin that can be fetch in our view.

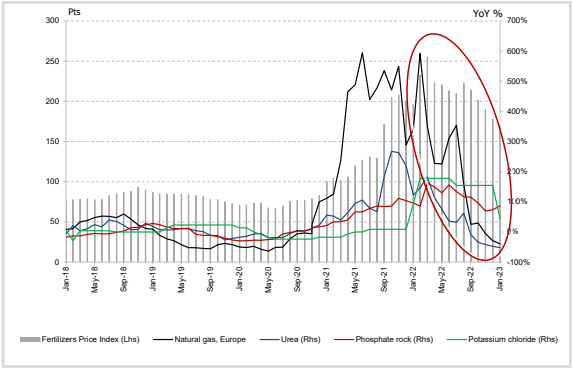
Earnings; a short-lived momentum. We opine sector's top-line continue to uptick in 1QCY23 and 2QCY23 in-line with higher average CPO price assumptions. However, we expect margin will still taper due stickiness of cost of production caused by higher locked in fertiliser costs for 2HCY23 coupled with high labour expenses. We keep our **NEUTRAL** call even though we'll likely see low production costs in the 2HCY23, but the CPO price to trade lower (Chart 44) on resumption of Indonesian export, leading to ceteris paribus performance for the CY23. Hence, we recommend investors to be more selective on stock selection and frontload stock's fundamental facing the volatility in 1HCY23. We prefer **Sime Plant (BUY, TP: RM5.50)** and **IOI Corp (BUY, TP: RM5.40)**.

Chart 43: Local FFB Production Forecast vs. Actual



Source: MIDFR

Chart 44: Components of Fertiliser Prices Falling



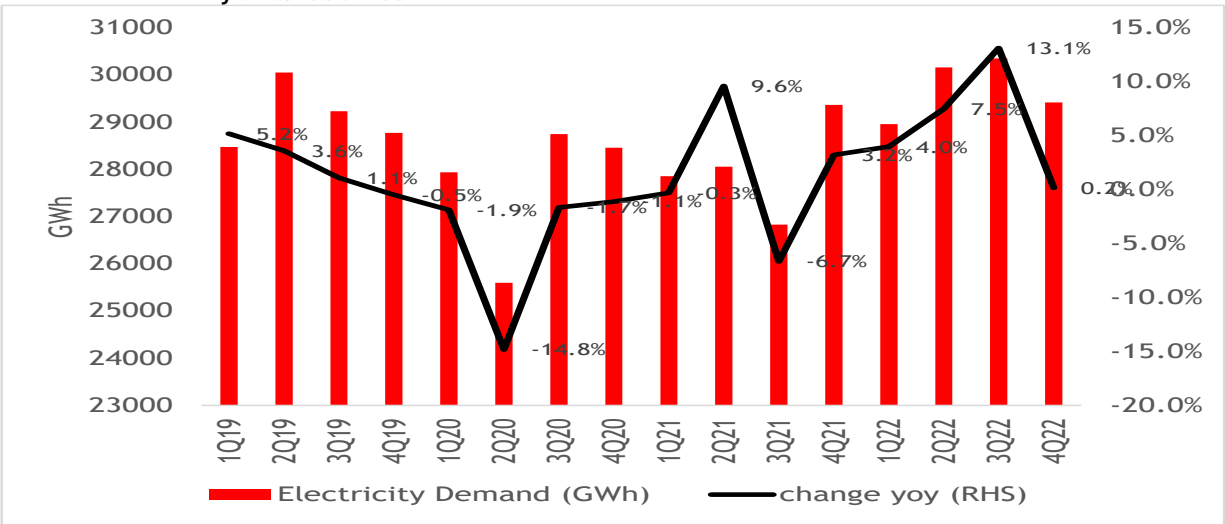
Source: MIDFR

XI. POWER

Pockets of opportunities.....Maintain NEUTRAL

Electricity demand recovery. Electricity demand for Peninsular Malaysia continued to recover albeit at a slower pace towards end-2022, with just a +0.2%yoy growth in 4QCY22. However, full year growth came in at +6%yoy reflecting reopening of the economy against a low base in the prior year, which was impacted by Covid lockdowns. Although the growth rate in 2022 exceeded RP3's projected demand growth of +1.7% per annum, the majority of Tenaga's regulated revenue is on revenue-cap basis, meaning the bulk of revenue generated from excess demand (beyond the projected +1.7% growth) was returned to consumers via the revenue adjustment mechanism under the IBR.

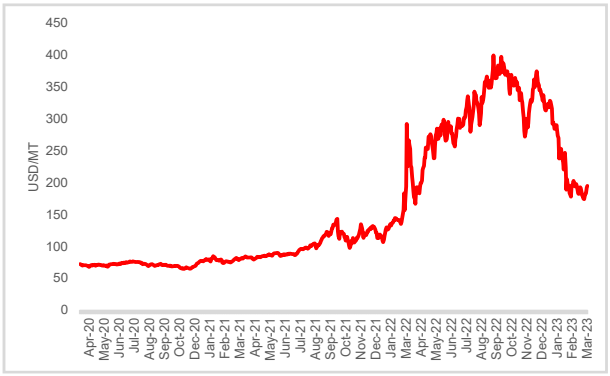
Chart 45: Electrcity Demand Trend



Source: Tenaga, MIDFR

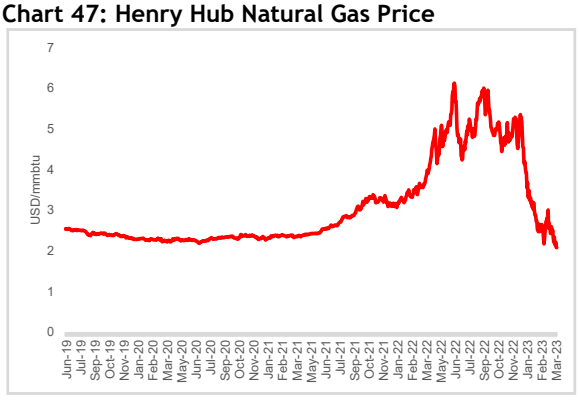
Positively, energy commodities have eased off their peaks. Coal price is now hovering around the USD200/MT level, half of peak levels of USD400/MT seen in 3QCY22, albeit still well higher than pre-pandemic levels and RP3 projected coal price of USD79/MT - coal made up 56% of Malaysia's generation mix in 2022. The lower coal price is a positive for Tenaga especially, as it should reduce the group's fuel cost under-recovery, which had been an overhang as the previously elevated fuel prices drove significant under-recovery leading to starkly higher working capital requirement and interest cost. Additionally, the ICPT decision in December 2022 was positive, with the Government allowing an ICPT pass-through of almost the entire ICPT receivables at Tenaga via a mix of Government subsidy and a sharp increase in ICPT surcharge for medium-to-high voltage non-domestic consumers. In line with the higher ICPT collection and easing fuel prices, we expect both Tenaga's ICPT receivables and underlying fuel cost under-recovery in the 1HFY23 period to ease, reducing the strain on cash flows and allowing retirement of some short-term debt undertaken previously to fund the elevated fuel cost.

Chart 46: Newcastle Coal Price



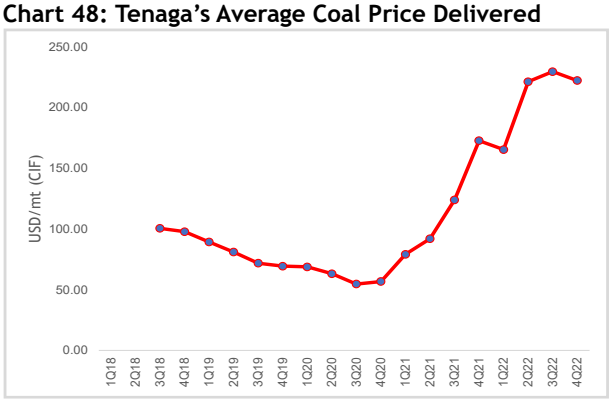
Source: Bloomberg, MIDFR

Chart 47: Henry Hub Natural Gas Price



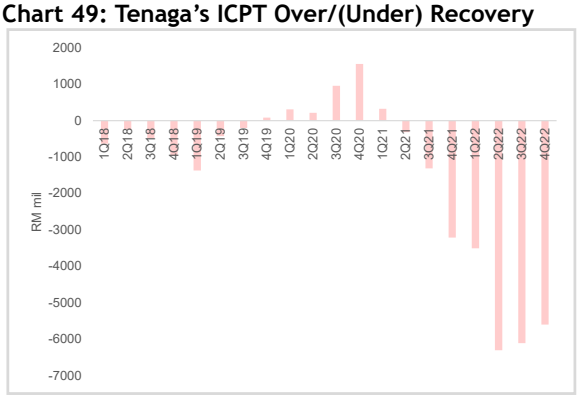
Source: Bloomberg, MIDFR

Chart 48: Tenaga's Average Coal Price Delivered



Source: Tenaga, MIDFR

Chart 49: Tenaga's ICPT Over/(Under) Recovery



Source: Tenaga, MIDFR

We prefer players in the generation space and liberalised markets. Notwithstanding the recent positive regulatory outcome, we believe IPPs are better off in the current high fuel price environment (which is still well above RP3 projected fuel cost) given that fuel is a cost pass-through to the off-taker, which is Tenaga. Players in this space include Ranhill Utilities (BUY, TP: RM0.70) and Malakoff (non-rated). Alternatively, players operating in liberalised electricity markets are also better able to pass through higher costs given the free-market nature of such electricity markets which allow for a better reflection of underlying cost in market prices. A play into liberalised electricity markets is YTL Power (BUY, TP: RM1.12), which operates in the Singapore generation sector - the Singapore electricity market has seen spot electricity prices rise by 200%-300% since 4QCY21 reflection higher fuel prices and tighter demand-supply.

Project resumption in the solar RE space. The Energy Commission recently approved a 4-year PPA extension (to 25 years) to winners of the LSS4 bidding cycle, which has seen project progress halted given rising material cost since the bids were placed in 3QCY20. While the impact on project IRR is expected to be minimal (as the extension is meant to compensate for higher-than-expected capex while still maintaining the same levelized tariffs), the decision nonetheless, allows the LSS4 projects to resume progress. Commissioning of the LSS4 plants have also been extended to December 2023. This should be a near-term positive for the solar EPCC players and project owners. Separately, the Government has approved the allocation and redistribution of RE quota of 1200MW for solar resources towards implementation of programs under the existing mechanisms including NEDA and rooftop solar, as well as new methods such as solar park development, power supply to new data centers and green hydrogen generation. Of the 1200MW, some 600MW has been identified for the Corporate Green Power Program (CGPP). In a latest development, the Government has approved: (1) An additional 200MW quota for the CGPP bringing total quota to 800MW (2) An additional 200MW quota for the commercial & industrial segment of the Net Energy Metering program, which also brings total quota to 800MW. These again, should be positive for the RE EPCC players as well asset owners pursuing the CGPP and NEM programs – the former is likely to attract players

from various sectors, but within the utilities space, includes players such as Ranhill Utilities, which is aiming to reduce electricity cost via adoption of CGPP for its water treatment plant operations.

Policies of the new Government will be closely watched. Energy sector policies by the new Government will be closely watched in the immediate term. While broadly, policies driving RE growth are likely to continue, an important policy that was put on hold in the past was liberalization of the power sector under MESI2.0, which essentially entails a move to spot market-based power generation supply, third party access to Tenaga's transmission & distribution network and the opening up of the retail space in the sector. Another potential policy review is the Government's stance on the current RE export ban which was put in place since late-2021. In the water utilities sector, a decision on an average 25sen/m3 nationwide tariff hike for the non-domestic sector was already approved by the previous Federal Government back in August 2022. However, another tariff review is now being undertaken for the domestic sector, which is a potential catalyst for water operators.

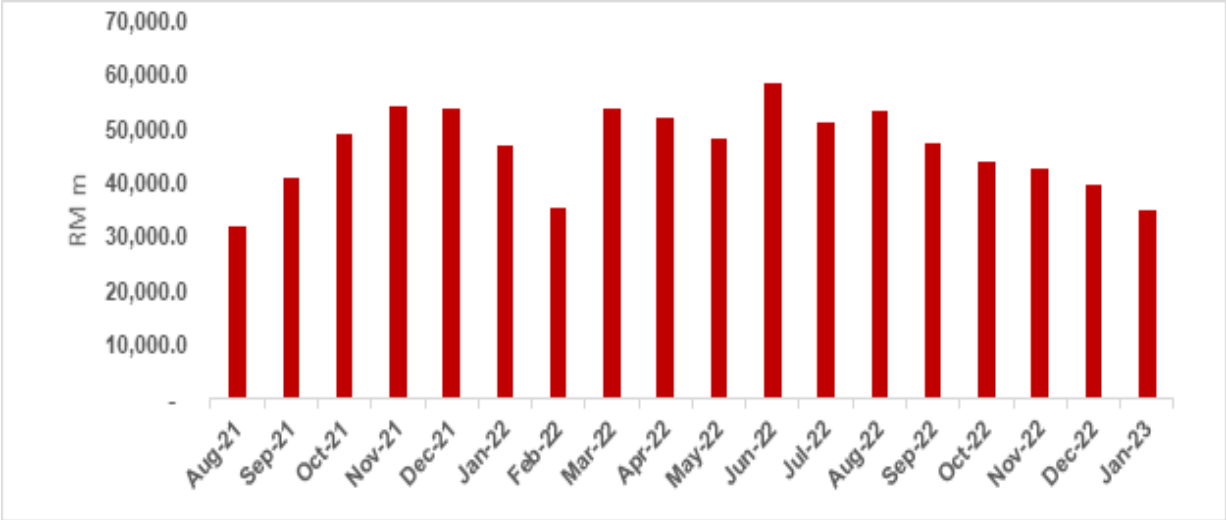
We remain NEUTRAL on the power sector; earnings are defensive in nature, but in a macro upcycle, upside potential is capped by regulatory revenue-caps, while growth catalyst is lacking given an already large excess capacity in the system (Peninsular Malaysia). Coupled with still high input cost, we think players operating in liberalised markets especially, are better bets as free market rates reflect both higher input cost and improved demand-supply conditions. Additionally, we like players in the water utilities space as a play into the recent non-domestic sector tariff hike and the upcoming domestic sector tariff review. Our sector picks are YTL Power (BUY, TP: RM1.12), YTL Corp (BUY, TP: RM0.83) and Ranhill Utilities (BUY, TP: RM0.70). Potential risks are: (1) Aggressive carbon pricing rate introduction and the inability of players to pass this down to end-consumers, (2) A sharp fall in demand which would impact rates in the liberalised electricity markets.

XII. PROPERTY

Muted buying interest.....Maintain NEUTRAL

Loan application for purchase of property hampered by OPR hikes. According to data released by Bank Negara Malaysia (BNM), loan application for purchase of property declined on monthly basis for fifth consecutive month in January 2023. We think that could be due to the lagged effect of several interest rate hikes in 2022 that increased housing loan installment and hampered buying interest. Nevertheless, BNM paused rate hike in January 2023 and March 2023 which provides short-term relief to the sector. We see that buying interest should recover marginally in 2QCY23 as OPR stays intact.

Chart 50: Monthly Total Applied Loan



Source: BNM, MIDFR

Property developers set higher new sales target. Most of the developers reported new property sales that met expectations in CY22. Moving forward, developers are marginally positive on new sales outlook by setting higher new sales target. Notably, Mah Sing Group set new sales target higher at RM2.2b for CY23 after securing new sales of RM2.12b in CY22. Similarly, Sunway Berhad set new sales target at RM2.3b for CY23 after hitting new sales of RM2b in CY22. While we see that new sales for developers could be subdued in 1QCY23 due to weak loan application, we opine that new sales outlook may improve in 2QCY23 due to pause in rate hike.

Higher House Price Index in 2022. According to data released by National Property Information Centre (NAPIC), preliminary figures of House Price Index (HPI) for CY22 increased to 208.4 from 202.7 in CY21. The increase in HPI could be largely attributed to the reopening of economy which spurred the property sector. Looking ahead, we expect house price in Malaysia to remain stable in CY23 as economic activities in Malaysia fully normalized while rising inflationary pressure should support house prices in Malaysia.

Labour shortage issue to gradually resolve by 2HCY23. Issue of labour shortage has been plaguing property sector in CY22 which dragged progress billing of property companies. While measures have been taken to source labours, we see that property developers may still face labour shortage issue in 2QCY23 as it takes time for the issue to be fully resolved. We expect labour shortage issue to be resolved by 2HCY23. That said, we see that progress billing of property companies may only back to full swing in 2HCY23 and earnings in 2QCY23 may still partially drag by lower construction progress at project site.

Maintain NEUTRAL on property sector. We see limited catalyst to property sector in 2QCY23 as buying interest on property is expected to remain flattish or marginally better due to lack of incentives for purchase of property. Nevertheless, the pause in OPR hike should support the recovery of buying interest marginally. Hence, we maintain **NEUTRAL** on property sector. We see that properties in the mid-market and affordable segment will continue to see resilient buying interest from property buyers as buyers look for properties that they could afford amid normalizing interest rate environment. Hence, we continue to favour companies which focus on affordable price range namely **Mah Sing Group (BUY, TP: RM0.75)** and **Glomac Berhad (BUY, TP: RM0.43)** due to their high exposure to mid-market and affordable homes segments.

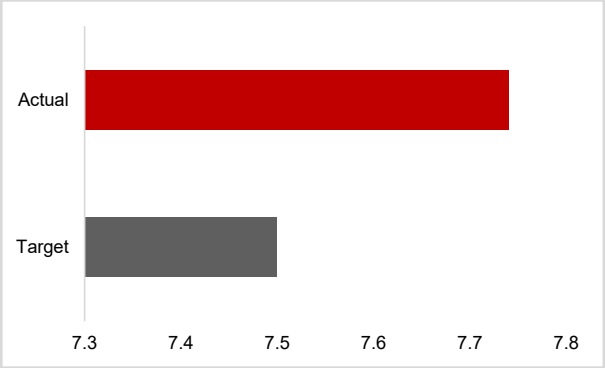
XIII. TELECOMMUNICATION

Still in an undetermined situation.....Maintain NEUTRAL

Jendela Progress. According to Communications and Digital Minister Fahmi Fadzil, Malaysia's MCMC has exceeded its Phase 1 connectivity targets. The country's 4G network now covers 96.92% of populated areas, exceeding its initial target of 96.9%, with 7.74m fiber-passed premises, above the target of 7.5m, and an average mobile broadband speed of 116.03Mbps, surpassing its target of 35Mbps. Currently, 4,363 5G sites provide coverage in 54.7% of populated areas, with the government aiming for 80% 5G population coverage by the end of 2023, one year ahead of schedule. However, we opine the hastened implementation of 5G may bear additional costs for Digital Nasional Bhd (DNB) and telcos in the form of elevated wholesale fees.

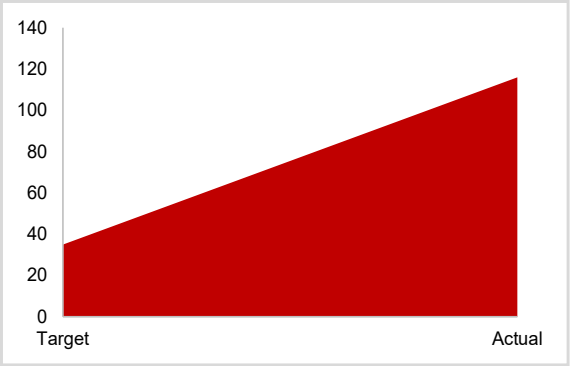
5G Implementation. DNB is presently the only entity with the license to launch 5G services in Malaysia since it has been granted the 700MHz, 3.5GHz, and 26/28GHz spectrum. As the Malaysian government completes its evaluation of the 5G implementation scheme by the end of March 2023, it is possible that DNB will continue to be the exclusive wholesale 5G network provider, subject to the government's assessment of its sufficiency. This development is positive on TM as it has ongoing agreement to offer 5G fibre leasing services to DNB through its extensive domestic fibre cable network. As a result, TM stands to benefit from the significant increase in demand for 5G services, positioning it for further growth in the telecom industry.

Chart 51: Premises Passed with Fibre Connectivity ('m)



Source: Communications and Digital Minister Fahmi Fadzil, MIDFR

Chart 52: Mobile Broadband Speed (in Mbps)



Source: Communications and Digital Minister Fahmi Fadzil, MIDFR

The Mandatory Standard on Access Pricing (MSAP). The new access price framework that took effect on March 1st resulted in a substantial reduction of 51-65% in Layer 3 service gateway prices. This surpasses the regulator's initial proposal of a 41-52% decline, as outlined in its public inquiry paper. Unifi's ARPU dropped by about 21% between 2018 and 2020 after the 2018 access price revision, although partly offset by stronger subscriber growth and promotions. To maintain their current subscribers without lowering their rates, we opine TM will provide complimentary speed upgrades. While negotiations with fibre wholesale access seekers on new commercial agreements have yet to be concluded (due by mid-year), we believe the larger-than-anticipated cut in MSAP has been priced in, and TM will likely experience a less substantial ARPU impact than in 2018.

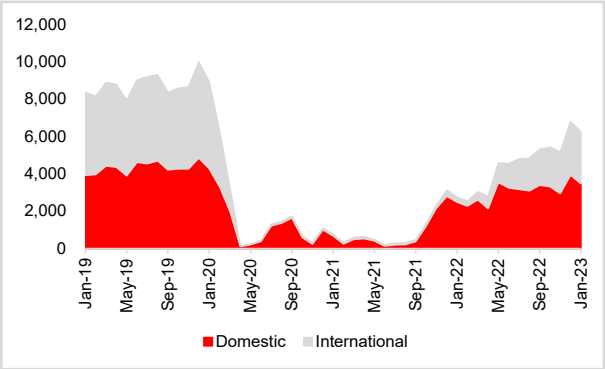
Maintain NEUTRAL. Despite the telecommunications industry's continued network development and the signing of 5G access agreements by telcos, excluding Maxis, we maintain our **NEUTRAL** view on the sector due to regulatory risks posed by the government. There is a possibility that the government may reassess the Single Wholesale Network (SWN) model and DNB's position as the exclusive wholesale 5G network provider. Additionally, the unprepared 5G ecosystem to cater to mass commercial usage and ongoing competition in the cellular market further compound the industry's uncertainties. In light of these risks, we favor fixed-line player **TM (BUY, TP: RM6.60)**, owing to its extensive fiber infrastructure, strong demand for fixed broadband services, and numerous business opportunities under MyDigital Initiatives.

XIV. TRANSPORTATION

On a recovery trajectory.....Maintain NEUTRAL

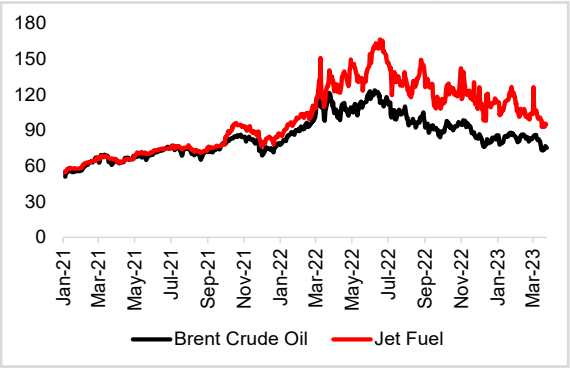
AVIATION

Chart 53: Malaysia's Passenger Movements (Pax)



Source: MAHB, MIDFR

Chart 54: Brent Crude Oil vs. Jet Fuel (USD/barrel)



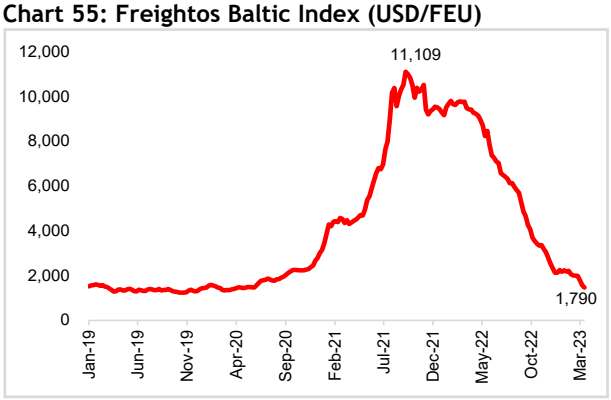
Source: Bloomberg, MIDFR

Encouraging passenger traffic recovery. Malaysia's passenger traffic in Feb-23, as reported by **Malaysia Airports Holdings Berhad (NEUTRAL, TP: RM7.35)**, of 5.8m pax translates into a recovery of 71% (domestic: 80%, international: 62%) relative to its 2019 levels. The passenger mix has become more favourable at about 55:45 for domestic and international sectors respectively and this has helped the aviation players rebuild their profitability. We are still of the view that the return of free-spending Chinese tourists will be staggered in the coming quarters as airlines must first gradually ramp up its flight offerings. In the case of Malaysia, additional seat capacity for the China market were only up by +16.2%mom in Jan-23 and +5.0%mom in Feb-23.

Awaiting a more meaningful recovery in 2HCY23. Malaysia's passenger traffic recovery is expected to be mainly supported by the return of MAA's inactive aircraft in the coming months as the airline had the lion's share (40% market share) in terms of passengers carried prior to the pandemic. MAA aims to fully reactive its 105-aircraft fleet by Aug-23 as only about 50% were operational as of end-4QCY22. Domestic traffic will be partially lifted by MYAirline's network growth as it received the delivery of another Airbus A320 in Jan-23, bringing its existing fleet to 5 aircraft. Meanwhile, the entry of Indonesia's TransNusa Airlines, should bode well for the traffic from this market which used to contribute a sizeable (~20%) portion to MAHB's international passenger movements. Key headwinds for the local airlines remain: (i) narrowing jet fuel crack spread as the refinery production capacities recover, (ii) the expectation of a stronger MYR against USD and (iii) airfares being rationally priced. We still maintain our passenger traffic assumptions for this year of an 85% recovery (domestic: 90%, international: 80%). Several events to look forward to include: (i) the announcement of **Capital A Berhad's (BUY, TP: RM0.91)** PN17 regularisation plan in 2QCY23 and (ii) the finalisation of the new operating agreement (OA 2023) between MAHB and the government in 2HCY23.

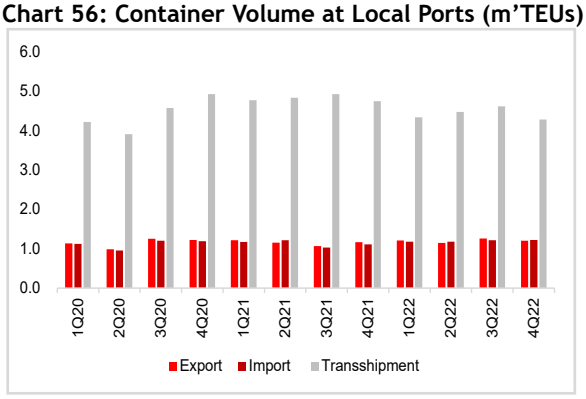
PORT & LOGISTICS

Chart 55: Freightos Baltic Index (USD/FEU)



Source: Bloomberg, MIDFR

Chart 56: Container Volume at Local Ports (m'TEUs)



Source: Ministry of Transport, MIDFR

Muted outlook for the transshipment business. Transshipment port throughput in the past year has taken a beating as global consumer demand moderated against a backdrop of rising interest rates to contain inflation and previous lockdowns in China. This is on top of the shift in post-pandemic consumption trends, which now favour services over goods. Confronting these headwinds, Port Klang is currently only handling <90% of transshipment cargoes that it used to handle in 2019, and this does not augur well for **Westports Berhad (NEUTRAL, TP: RM3.90).** Fortunately, gateway port throughput is still recording growth with more competitive local exports and foreign direct investments (FDIs) in the state. For the port sector, we believe **Suria Capital Holdings Berhad (BUY, TP: RM1.30)** is in a better position to weather these macro headwinds on the back of: (i) stable production of palm oil and crude oil in the state and (ii) growing construction activities for the mega investment projects in Kota Kinabalu Industrial Park (KKIP). Key event to look forward to for the port sector is the finalisation of Westports 2 concession agreement which will likely make headway in 2HCY23.

Normalised freight rates are not a big concern. Despite the general expectation of slowing global trade, we are still sanguine on the outlook of the logistics players under our coverage as their performance is largely dependent on domestic trade with customers mostly operating in export-oriented industries. Most players are servicing large multi-national companies (MNCs) from diversified sectors, hence this should partly shield them from economic shocks. Market freight rates have normalised considerably on the back of capacity recovery and improving supply chain logjams. Ocean freight rates, as indicated by Freightos Index Global Index, are now back to pre-pandemic levels after peaking at ~USD11,000 per FEU in Sep-21. Although the normalisation does affect the bottomline of freight forwarders, the impact is minimal as the industry players under our coverage have reported an increase in handling volume due to the affordability of ocean freight rates at current levels. Key risk to earnings would be inflationary pressures on operating costs, which could adversely impact the bottomline as some players do not have the ability to fully pass this on to their customers.

Steady expansion of warehouse capacity. There were growing concerns regarding a potential oversupply of warehousing space, given that several new mega warehouses will be commencing its operations in the next two years. However, warehouses that are strategically located are still seeing consistently high demand. We opine that smaller warehouse operators are the ones at risk of losing out as bigger players typically are favoured by large MNCs as it have: (i) the scale to cater to consolidation needs and (ii) the ability to offer built-to-suit warehouses. Therefore, this segment is still expected to be growing as evidenced by the capacity expansion projects being undertaken by the logistics players under our coverage. **Swift Haulage Berhad (BUY, TP: RM0.90)** is eyeing on a total of +400,000 sq ft expansion by 1QCY24 after adding +42% of available capacity to its portfolio of 'own and operate' warehouses in CY22, while the construction of **Tasco Berhad's (BUY, TP: RM1.87)** 620,000 sq ft 4-storey warehouse under Phase 1 of the Shah Alam Logistics Centre (SALC) is progressing well and is due to handed over in Jan-24.

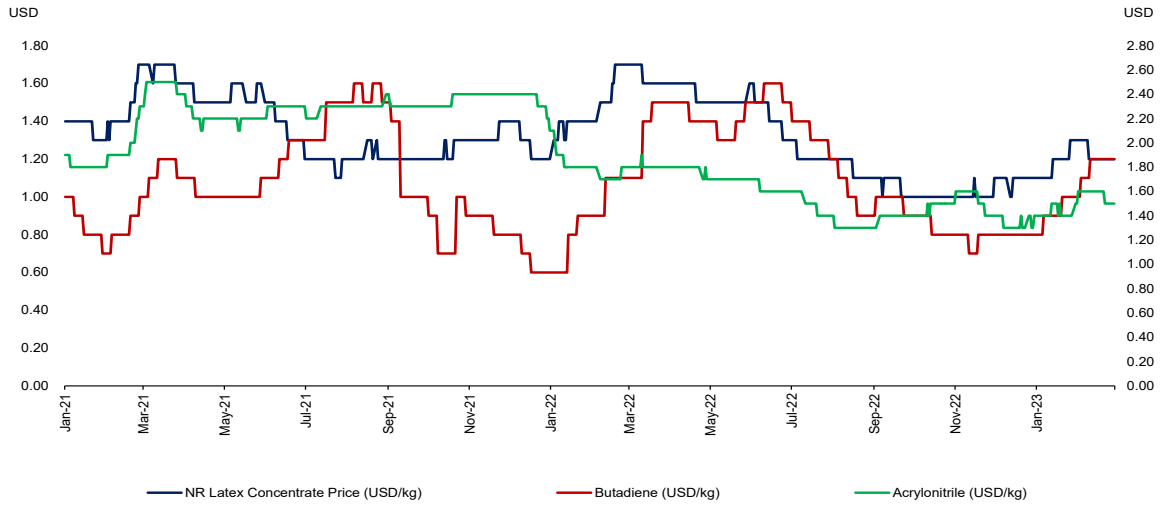
Our top picks for the logistics sector are **Tasco (BUY, TP: RM1.87)** as (i) its customers have a sizeable exposure in the electronics & electrical (E&E) and semiconductor markets, which has been driving exports and (ii) the Group has seen a compensating upswing in shipment volume which has largely offset the impact of normalising freight rates on its earnings and **Swift Haulage (BUY, TP: RM0.90)** as (i) it is a dominant player in the container haulage space, (ii) it fetches a superior profit margin due to its large in-house assets and (iii) it is insulated from the volatility of market freight rates.

XV. GLOVES

A cloud on the horizon in the short-term.....Maintain NEGATIVE

Raw material prices remain bumpy in the near term. Two out of the three raw materials prices that we observed continued to fall in Feb-23, notably NR Latex Concentrate Price (-21.2%yoy) and Acrylonitrile Price (-9.8%yoy). In contrast, Butadiene (+13.2%yoy) remained elevated in Feb-23, slightly offsetting the decline in Acrylonitrile. Note that NR Latex Concentrate is the core raw material for natural rubber gloves, while nitrile gloves are made from synthetic rubber, which is a mix of acrylonitrile and butadiene. On the flip side, the average prices of all three raw materials remained elevated on monthly basis in Feb-23, owing in part to the growing demand for Acrylonitrile and Butadiene, as well as decreased NR latex concentrate output due to the winter season (until the ends of May-23). Given that raw material costs made up 34-37% of all operational costs, all glovemakers covered by our coverage will be affected in the short term by the fluctuating raw material prices. Nevertheless, the persistently low utilisation rate increased the production cost per unit from USD14-16 per 1000 gloves pre-pandemic to approximately USD20-22 per 1000 pieces of gloves as of 4QCY22. Hence, we expect the margin compression will remain in the near term.

Chart 57: Raw Material Price Trend (USD/kg)



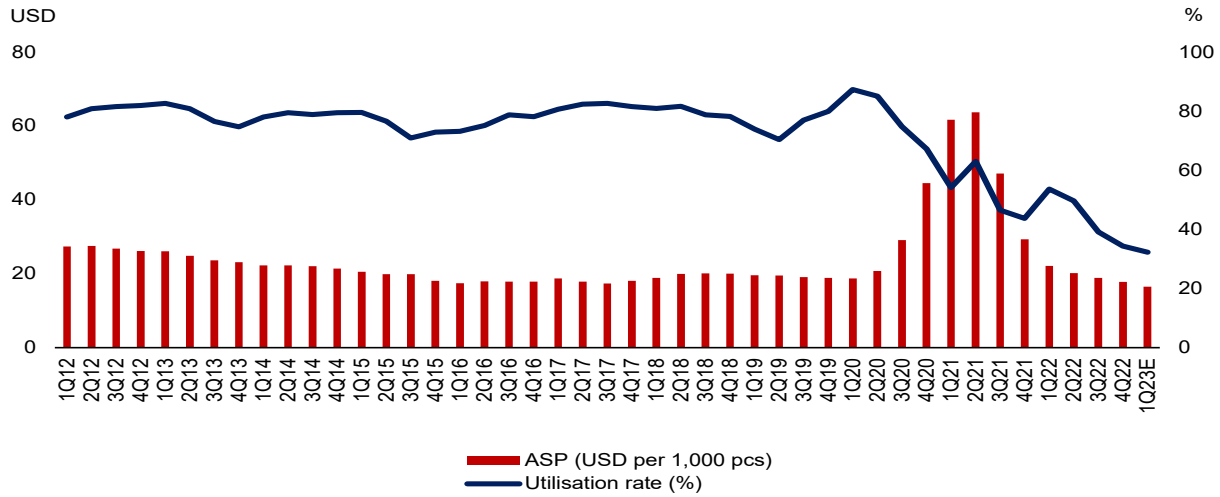
Source: Bloomberg, MIDFR

Normalising global glove demand in 2023. Based on our channel check, the old inventory is projected to deplete or expire by end of 2023, and the buyer may engage in some restocking operations in the near term. However, we are aware that the COVID-19 pandemic has come to an end due to the effectiveness of the vaccination with most countries transitioned into the endemic phase after the border reopened. As such, we expect the normalizing of the glove to the pre-pandemic level in 2023. Likewise, the Malaysian Rubber Glove Manufacturers Association ("MARGMA") projects that global glove demand would reach 300b pieces in 2023, which is lower than the global glove demand in 2019 but higher than in 2018.

Oversupply of glove situation to persist. The industry utilization rate stabilized at 32-35% in 1QCY23, down from 35%-40% in 4QCY22. Note that the industry utilization rate for 2019 was 80-85%. Based on our channel check, some of the new entrants during the pandemic with lower production capacity exited the business due to the persistent loss. However, the smaller player's capacity in comparison to the overall glove supply is relatively small which could not help the oversupply issue in the market. Besides, we gather that the number of glovemakers registered as MARGMA associate members have grown from below 60 (pre-pandemic) to 90 members (including subsidiaries) post-pandemic, equivalent to 20 new entrants in Malaysia. With industry utilization remaining low, normalizing glove demand, and a significant number of glovemakers staying in the sector, we anticipate that the demand-supply dynamic is unlikely to revert to normal in the next 1 to 1.2 years. Looking ahead, we anticipate an industry utilization rate of 35-40% in 2023.

Cautiously optimistic about the average selling price adjustment ("ASP"). We saw the beginning of ASP correction in the industry as a cost-passing effort. Based on our channel check, China's glovemakers increased their blended ASP from USD14/1k pieces to USD16/1k pieces in 1QCY23, equivalent to a 15% increase. Meanwhile, Hartalega intends to pass on a part of its additional costs to customers through ASP adjustments beginning in 1QCY23. Similarly, Top Glove plans to increase almost 15-20% of the ASP to an average ASP of USD21/1k pieces. With most industry players considering raising ASP, we expect a better success rate. However, we believe there is limited room to pass on rising expenses with a bigger price increase in the near term. This is due to the continued oversupply of gloves and the low level of cost competition among Chinese and Malaysian glove manufacturers. Overall, we continue to be concerned about the willingness of customers to accept the price adjustment as we believe that the ASP revision at this point is merely testing the waters to gauge buyers' reactions before making a more substantial price hike.

Chart 58: Industry Blended ASP and Utilisation Rates



Source: Bloomberg, MIDFR

Maintain NEGATIVE on the sector. We remain cautious about the outlook due to the ongoing intense rivalry and normalizing glove demand, which has resulted in a continual surplus of gloves. Hence, we continue to believe that the demand-supply dynamic is unlikely to return to normal at least in the next 1 year. Even though the industry has started to hike ASP to pass on costs, we are adopting a wait-and-see approach in the short term to assess consumer reaction to the ASP increase. This is given that clients may easily switch to other firms thanks to a continual oversupply of gloves situation. We are also wary that the margin compression will persist in the near term due to the high manufacturing cost per unit as a result of the poor utilisation rate. Thus, retain **NEGATIVE** in the near term. Our top pick for the sector is **Hartalega (NEUTRAL, TP: RM1.80)**, due to its strong net cash position of RM1.9b (equivalent to 27% of market capitalization), which might buffer against any adverse risk ahead. We also like Hartalega because of its ability to generate positive operating cash flow despite multiple headwinds.

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APPENDIX Table i: MIDF RESEARCH STOCK UNIVERSE as at 27 March 2023

	FYE	Rec.	Price (RM)	Target Price	Net Profit (RM m)			EPS (sen)			EPS (% chg)			PE	
					FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY2
CONSTRUCTION															
Cahya Mata Sarawak	Dec	BUY	1.09	1.55	298.1	207.8	200.8	27.8	19.3	18.7	45.6	-30.3	-3.4	3.9	5.6
Gabungan AQRS	Dec	BUY	0.30	0.44	20.8	26.4	27.7	3.8	4.9	5.1	29.4	27.0	4.9	7.8	6.2
Gamuda	Jul	BUY	4.17	5.04	806.2	813.9	833.2	31.9	30.6	31.3	36.1	-3.9	2.4	13.1	13.
IJM Corp	Mar	BUY	1.58	1.90	794.9	285.0	323.2	22.2	8.1	9.2	86.3	-63.4	13.4	7.1	19.
KKB Engineering	Dec	BUY	1.40	1.50	11.7	28.0	25.0	4.1	9.7	8.7	-59.7	139.5	-10.7	34.6	14.
MRCB	Dec	BUY	0.33	0.40	64.8	68.1	70.4	1.5	1.5	1.6	302.8	5.1	3.4	22.4	21.
Muhibbah	Dec	SELL	0.70	0.47	-17.8	33.6	71.9	-2.8	4.6	9.9	298.6	-268.1	114.0	n.a.	15.
Pintaras Jaya	Jun	BUY	1.81	2.43	41.2	32.3	37.4	24.8	19.5	22.5	-35.9	-21.5	15.8	7.3	9.3
Sunway Construction	Dec	BUY	1.67	2.00	135.2	147.4	160.9	10.5	11.4	12.5	20.2	9.0	9.1	15.9	14.
WCT	Dec	BUY	0.42	0.58	127.2	77.9	78.9	9.0	5.5	5.6	30.0	-38.7	1.3	4.6	7.6
CONGLOMERATE															
YTL Corp	**Jun**	**BUY**	**0.57**	**0.83**	**545.4**	**248.9**	**356.1**	**5.0**	**2.3**	**3.2**	**-247.0**	**-54.3**	**43.1**	**11.5**	**25.**
TELECOMMUNICATIONS															
Axiata	Dec	BUY	2.97	4.54	9,765.6	2,098.6	2,239.2	106.4	22.9	24.4	1,095.5	-78.5	6.7	2.8	13.
CelcomDigi	Dec	NEUTRAL	4.28	4.11	n.a.	1,310.2	1,411.7	0.0	11.2	12.0	-100.0	n.a.	7.8	n.a.	38.
Maxis	Dec	NEUTRAL	3.94	3.60	1,182.0	1,300.1	1,434.4	15.1	16.6	18.3	-9.6	10.0	10.3	26.1	23.
Telekom Malaysia	Dec	BUY	4.74	6.60	1,143.3	1,506.8	1,591.7	30.2	39.4	41.6	27.4	30.5	5.6	15.7	12.
MEDIA															
Astro	Jan	BUY	0.66	0.89	460.9	259.0	483.6	9.0	5.3	9.3	-10.0	-41.1	75.5	7.3	16.
Media Prima	Dec	BUY	0.40	0.60	55.2	52.9	61.9	5.0	4.8	5.6	0.0	-4.2	17.0	8.0	8.4
TECHNOLOGY															
D & O Green Tech	Dec	BUY	4.18	5.10	75.1	164.3	203.1	5.7	13.3	16.4	-35.7	133.7	23.6	73.6	31.
Datasonic	Mar	BUY	0.43	0.57	10.2	81.7	99.3	0.4	2.9	3.5	28.6	701.2	21.6	119.4	14.
Globetronics	Dec	BUY	1.08	1.31	45.5	47.9	54.7	6.8	7.2	8.2	-14.2	5.4	14.2	15.9	15.
Inari Amertron	Jun	BUY	2.41	3.00	390.9	393.0	419.4	10.7	10.5	11.2	6.4	-1.2	6.7	22.6	22.
My E.G.	Dec	BUY	0.72	1.00	398.7	399.6	413.0	5.1	5.4	5.6	15.9	5.8	3.4	14.1	13.
Unisem	Dec	BUY	3.00	3.72	385.4	285.8	317.0	23.9	17.7	19.7	93.9	-25.8	10.9	12.6	16.
PLANTATION															
FGV	Dec	NEUTRAL	1.49	1.38	1,322.6	628.0	547.0	36.3	17.2	15.0	13.3	-52.5	-12.9	4.1	8.6
Genting Plantations	**Dec**	NEUTRAL	**5.89**	**6.16**	**471.4**	**424.8**	**305.5**	**52.5**	**47.3**	**34.1**	**9.1**	**-9.9**	**-28.1**	**11.2**	**12.**
IOI Corp	Jun	BUY	3.73	5.40	1,725.3	1,396.9	1,008.0	27.7	22.5	16.2	24.6	-18.9	-27.8	13.4	16.
KL Kepong	Sep	BUY	20.70	26.00	2,166.3	1,521.6	880.0	200.9	141.1	81.6	-4.0	-29.8	-42.2	10.3	14.
PPB Group	Dec	BUY	16.54	24.10	2,196.8	2,539.6	2,638.3	154.4	178.5	185.5	46.8	15.6	3.9	10.7	9.3
Sarawak Plantation	Dec	BUY	2.14	2.60	96.7	80.3	70.9	34.7	28.8	25.4	-24.3	-17.0	-11.7	6.2	7.4
Sime Darby Plantation	Dec	BUY	4.16	5.50	2,488.0	1,727.4	1,519.4	36.0	25.0	22.0	10.4	-30.6	-12.0	11.6	16.
TSH Resources	Dec	NEUTRAL	1.00	1.01	457.5	140.0	106.5	33.2	10.1	7.7	170.2	-69.4	-23.9	3.0	9.8
GLOVE															
Hartalega	Mar	NEUTRAL	1.93	1.80	3,234.5	158.4	209.9	94.6	4.6	6.1	12.1	-95.1	32.5	2.0	41.
Kossan	Dec	SELL	1.31	0.95	156.6	85.0	134.4	6.1	3.3	5.3	-94.5	-45.7	58.1	21.3	39.
Top Glove	Aug	SELL	0.97	0.55	225.6	-503.6	69.4	2.8	-6.3	0.9	-97.1	-323.0	-113.8	34.4	n.a
HEALTHCARE															
IHH Healthcare	Dec	BUY	5.74	6.91	1,496.2	1,725.6	1,750.9	17.0	19.6	19.9	-15.8	15.3	1.5	33.8	29.
KPJ	Dec	BUY	1.13	1.48	172.0	248.4	264.0	4.0	5.7	6.0	232.8	43.7	6.3	28.5	19.
Pharmaniaga	**Dec**	NEUTRAL	**0.29**	**0.48**	**-607.3**	**71.3**	**92.1**	**-46.4**	**5.4**	**7.0**	**-452.5**	**-111.7**	**29.1**	**n.a.**	**5.2**
CONSUMER (F&B, Retail)															
AEON Co.	Dec	BUY	1.31	1.90	111.2	149.0	174.2	7.9	10.6	12.4	30.5	34.0	16.9	16.5	12.
Asia File	Mar	NEUTRAL	1.71	1.60	43.4	35.9	39.4	22.3	18.4	20.2	-6.9	-17.3	9.7	7.7	9.3
Fraser & Neave	Sep	BUY	25.50	33.50	383.2	434.4	539.7	104.5	118.4	147.1	-3.1	13.3	24.2	24.4	21.
Hup Seng	Dec	BUY	0.71	0.88	26.1	36.4	48.4	3.3	4.6	6.1	-4.4	39.6	33.0	21.8	15.
Leong Hup	Dec	BUY	0.53	0.90	218.9	284.2	328.3	6.0	7.8	9.0	156.4	29.8	15.5	8.8	6.8
MSM	Dec	NEUTRAL	0.81	0.83	-178.7	26.4	67.9	-25.4	3.8	9.7	-242.6	-114.8	157.2	n.a.	21.
Nestlé	Dec	NEUTRAL	134.70	139.50	620.3	746.1	842.1	265.0	318.2	359.1	9.1	20.1	12.9	50.8	42.
Padini	Jun	BUY	3.79	4.40	154.1	206.3	224.4	23.4	31.4	34.1	184.9	33.9	8.8	16.2	12.
QL Resources	Mar	BUY	5.70	6.80	217.3	371.6	423.8	9.0	15.3	17.4	-30.8	69.7	14.0	63.3	37.
Rhong Khen International	Jun	NEUTRAL	1.41	1.35	35.5	33.6	37.6	18.0	17.3	19.4	-35.7	-3.9	11.9	7.8	8.2
Spritzer	Dec	BUY	2.35	2.80	37.0	42.5	53.7	17.6	20.0	25.2	52.8	13.3	26.4	13.3	11.
BANKING															
Affin Bank	Dec	NEUTRAL	1.99	2.11	1,300.2	554.0	635.0	60.0	24.4	27.9	140.0	-59.4	14.6	3.3	8.2
Alliance Bank	Mar	BUY	3.29	4.26	572.8	681.0	727.0	37.0	44.0	47.0	59.5	18.9	6.8	8.9	7.5
AMMB	Mar	BUY	3.55	5.24	1,502.7	1,770.0	1,923.0	45.5	53.5	58.1	-135.8	17.5	8.6	7.8	6.6
Bank Islam	Dec	BUY	2.15	2.99	491.7	598.0	658.0	22.9	26.6	29.3	-11.2	16.6	10.0	9.4	8.1
CIMB	Dec	BUY	5.16	6.55	5,439.9	6,633.0	7,381.0	52.2	62.2	69.2	21.7	19.2	11.3	9.9	8.3
Hong Leong Bank	Jun	BUY	19.98	24.90	3,289.3	3,866.0	4,232.0	160.6	178.3	195.2	15.0	11.0	9.5	12.4	11.
Hong Leong Financial	Jun	BUY	17.90	24.79	2,452.2	2,769.0	2,999.0	216.3	241.8	261.9	8.3	11.8	8.3	8.3	7.4
Malayan Banking	Dec	NEUTRAL	8.44	8.94	8,234.9	9,806.0	10,802.0	68.8	81.3	89.6	-1.3	18.2	10.2	12.3	10.
Public Bank	Dec	BUY	3.89	5.08	6,119.5	6,978.0	7,185.0	31.5	35.9	37.0	8.2	14.0	3.0	12.3	10.
RHB Bank	Dec	BUY	5.45	6.74	2,707.7	3,204.0	3,719.0	64.7	75.4	87.6	0.0	16.6	16.1	8.4	7.2

Source: Company, MIDFR

R		DPS			Yield (%)			PBV	BV / share	Net margin	ROA (%)	ROE (%)	No of	Market cap	52-week Price	
3F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	(RM)	(%)			shares (m)	(RM m)	High (RM)	Low (RM)
6	5.8	3.0	3.0	3.0	2.8	2.8	2.8	0.36	3.01	20.60	4.23	5.96	1,074.2	1,170.9	1.36	0.80
2	5.9	0.0	1.0	1.0	0.0	3.3	3.3	0.32	0.93	7.81	1.91	5.22	542.8	162.8	0.47	0.25
6	13.3	12.0	50.0	12.0	2.9	12.0	2.9	1.09	3.83	16.60	4.02	7.94	2,659.3	11,089.3	4.33	3.00
5	17.2	6.0	6.0	6.0	3.8	3.8	3.8	0.57	2.79	6.49	1.36	2.49	3,512.9	5,550.4	1.92	1.47
4	16.2	5.0	4.0	4.0	3.6	2.9	2.9	1.01	1.38	7.24	5.08	6.32	288.7	404.2	1.51	1.28
3	20.6	1.0	1.0	2.0	3.1	3.1	6.2	0.32	1.01	2.12	0.74	1.50	4,467.5	1,451.9	0.41	0.28
1	7.1	0.0	1.5	1.5	0.0	2.1	2.1	0.39	1.80	3.79	0.99	1.87	727.0	508.9	0.78	0.40
3	8.0	10.0	6.0	6.0	5.5	3.3	3.3	0.76	2.38	7.29	5.46	8.07	165.9	300.2	2.75	1.81
6	13.4	6.0	6.0	6.0	3.6	3.6	3.6	2.92	0.57	6.84	6.59	17.96	1,289.4	2,153.2	1.74	1.41
6	7.5	0.5	0.5	10.5	1.2	1.2	25.3	0.19	2.21	3.70	0.94	1.99	1,417.2	588.2	0.61	0.34
1	**17.5**	**2.5**	**3.5**	**3.7**	**4.4**	**6.1**	**6.5**	**0.50**	**1.15**	**1.03**	**0.34**	**1.42**	**10,964.1**	**6,249.5**	**0.67**	**0.53**
0	12.2	14.0	14.0	14.0	4.7	4.7	4.7	1.14	2.60	9.66	2.57	6.85	9,179.0	27,261.5	3.83	2.32
3	35.6	12.2	16.8	n.a.	2.9	3.9	n.a.	n.a.	n.a.	n.a.	3.49	n.a.	11,731.5	50,210.9	4.59	3.10
7	21.5	20.0	20.0	20.0	5.1	5.1	5.1	4.84	0.81	13.28	5.64	20.41	7,830.1	30,850.8	4.19	3.16
0	11.4	16.5	19.8	20.9	3.5	4.2	4.4	2.28	2.08	12.43	6.51	18.63	3,822.0	18,116.2	6.10	4.70
8	9.6	6.8	3.0	5.0	10.2	4.5	7.6	3.21	0.21	6.82	4.54	23.59	5,214.5	3,441.6	1.10	0.58
4	7.2	1.5	0.0	0.0	3.8	0.0	0.0	0.74	0.54	4.72	3.76	8.47	1,109.2	443.7	0.66	0.38
5	25.5	1.3	3.5	3.5	0.3	0.8	0.8	8.70	0.48	16.71	10.28	18.72	1,237.7	5,173.7	4.94	3.40
9	12.3	0.4	1.6	1.6	0.8	3.7	3.7	3.46	0.12	59.89	20.39	23.85	2,832.6	1,218.0	0.60	0.41
1	13.2	3.0	9.5	10.5	2.8	8.8	9.7	2.41	0.45	26.60	14.66	15.94	669.4	723.0	1.54	0.99
9	21.5	10.0	11.5	12.3	4.1	4.8	5.1	3.49	0.69	25.39	13.58	15.65	3,732.9	8,996.4	3.17	2.28
3	12.9	1.4	1.6	1.7	2.0	2.2	2.4	2.85	0.25	61.37	15.74	21.34	7,406.3	5,332.5	1.06	0.57
9	15.3	2.0	6.0	6.0	0.7	2.0	2.0	1.00	3.00	16.04	9.47	11.83	1,613.1	4,839.2	3.30	2.07
6	9.9	11.0	5.0	3.0	7.4	3.4	2.0	0.87	1.71	2.46	3.48	7.95	3,648.2	5,428.5	2.11	1.30
4	**17.3**	**19.0**	**27.0**	**25.0**	**3.2**	**4.6**	**4.2**	**1.01**	**5.81**	**13.32**	**4.83**	**8.00**	**897.2**	**5,284.5**	**9.22**	**5.37**
6	23.0	14.0	12.0	10.5	3.8	3.2	2.8	2.06	1.81	8.97	7.29	12.38	6,207.2	23,152.8	4.76	3.59
7	25.4	100.0	70.0	50.0	4.8	3.4	2.4	1.64	12.63	5.60	5.03	9.48	1,078.4	22,323.6	29.80	19.42
3	8.9	28.0	40.0	43.0	1.7	2.4	2.6	0.91	18.16	41.29	8.78	9.56	1,422.6	23,529.8	18.00	14.90
4	8.4	15.0	10.0	10.0	7.0	4.7	4.7	0.84	2.55	11.30	8.45	11.37	279.0	597.1	3.15	1.91
7	18.9	16.0	15.0	13.0	3.9	3.6	3.1	1.55	2.69	8.21	5.55	9.08	6,915.7	28,769.4	5.46	3.82
3	12.9	2.5	3.0	2.0	2.5	3.0	2.0	0.72	1.38	10.71	4.73	6.56	1,380.2	1,373.3	1.89	0.90
6	31.4	53.5	2.8	3.7	27.7	1.5	1.9	1.33	1.45	2.01	2.50	3.08	3,417.5	6,595.7	5.13	1.41
3	24.9	0.0	1.3	2.1	0.0	1.0	1.6	0.86	1.52	3.67	1.97	2.17	2,551.6	3,342.6	2.09	0.92
.	111.9	1.2	0.0	0.2	1.2	0.0	0.2	1.24	0.79	-9.04	-6.20	-7.41	8,007.3	7,767.1	2.09	0.57
3	28.9	7.0	6.0	7.0	1.2	1.0	1.2	1.93	2.97	9.59	3.56	5.92	8,807.0	50,552.1	6.76	5.44
9	18.7	2.0	3.0	4.0	1.8	2.7	3.5	2.29	0.49	8.50	3.55	10.55	4,364.3	4,931.7	1.18	0.79
2	**4.1**	**6.9**	**5.0**	**6.7**	**24.2**	**17.5**	**23.5**	**-1.50**	**-0.19**	**2.03**	**3.92**	**-31.37**	**1,310.2**	**373.4**	**0.77**	**0.22**
3	10.6	4.0	5.3	6.2	3.1	4.0	4.7	1.02	1.29	3.60	2.75	8.25	1,404.0	1,839.2	1.69	1.26
3	8.5	2.0	1.8	2.0	1.2	1.1	1.2	0.45	3.77	11.11	4.62	5.01	194.8	333.1	2.20	1.68
5	17.3	60.0	65.0	70.0	2.4	2.5	2.7	2.86	8.90	9.72	10.37	14.56	366.8	9,352.9	27.76	19.24
6	11.7	2.0	2.8	3.9	2.8	3.9	5.5	4.03	0.18	11.44	17.10	25.80	800.0	568.0	0.86	0.60
3	5.9	0.0	2.2	2.6	0.0	4.2	4.9	0.96	0.55	3.14	4.31	10.97	3,650.0	1,934.5	0.57	0.44
4	8.3	0.0	1.0	1.0	0.0	1.2	1.2	0.37	2.15	1.03	0.94	1.74	703.0	565.9	1.03	0.73
3	37.5	262.0	315.1	355.7	1.9	2.3	2.6	50.43	2.67	11.20	20.99	119.13	234.5	31,587.2	140.60	127.20
1	11.1	10.0	10.7	10.2	2.6	2.8	2.7	2.54	1.49	15.64	13.81	23.15	657.9	2,493.5	4.00	2.87
3	32.7	3.5	4.6	5.2	0.6	0.8	0.9	5.22	1.09	7.10	7.50	13.73	2,433.7	13,871.8	6.09	4.73
2	7.3	10.0	5.2	5.8	7.1	3.7	4.1	n.a.	n.a.	4.44	3.54	5.13	194.3	273.9	1.56	1.30
8	9.3	6.3	7.1	8.9	2.7	3.0	3.8	0.99	2.36	9.81	7.07	8.61	212.9	500.2	2.40	1.80
2	7.1	0.0	7.9	99.0	0.0	4.0	49.7	0.40	4.96	18.10	0.61	5.15	2,273.9	4,525.0	2.33	1.70
5	7.0	10.2	22.0	23.5	3.1	6.7	7.1	0.78	4.23	26.88	1.10	10.61	1,548.1	5,093.3	3.93	3.11
6	6.1	5.0	16.1	17.5	1.4	4.5	4.9	0.67	5.32	28.92	1.01	9.86	3,307.1	11,740.2	4.25	3.38
	7.3	10.4	12.2	13.5	4.8	5.7	6.3	1.15	1.86	17.68	0.67	8.80	2,244.0	4,824.6	3.05	2.15
3	7.5	26.0	33.1	36.8	5.0	6.4	7.1	0.86	5.97	24.70	0.99	10.40	10,665.1	55,031.9	5.90	4.83
2	10.2	55.0	66.1	72.3	2.8	3.3	3.6	1.28	15.66	51.10	1.52	12.48	2,167.7	43,311.0	21.88	19.82
4	6.8	46.0	48.8	52.9	2.6	2.7	3.0	0.79	22.55	33.21	0.97	7.69	1,145.2	20,499.9	20.18	17.50
4	9.4	58.0	67.5	74.4	6.9	8.0	8.8	1.18	7.13	28.24	1.03	11.03	12,054.1	101,736.9	9.18	8.26
8	10.5	17.0	18.0	18.5	4.4	4.6	4.8	1.50	2.59	34.62	1.41	13.54	19,410.7	75,507.6	4.79	3.88
2	6.2	40.0	39.6	45.9	7.3	7.3	8.4	0.81	6.76	27.82	1.03	11.15	4,247.4	23,148.2	6.31	5.42

Table i: MIDF RESEARCH STOCK UNIVERSE as at 27 MARCH 2023 (cont'd)

	FYE	Rec.	Price (RM)	Target Price	Net Profit (RM m)			EPS (sen)			EPS (% chg)			PE	
					FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23
FINANCE															
AEON Credit	Feb	BUY	11.16	15.00	355.3	389.4	420.4	139.2	152.5	164.7	58.7	9.6	8.0	8.0	7.3
Bursa Malaysia	Dec	BUY	6.39	7.30	226.6	246.9	266.3	28.0	30.5	32.9	-36.2	9.0	7.9	22.8	20.9
OIL & GAS															
Bumi Armada	Dec	BUY	0.61	0.80	732.4	754.1	859.3	12.4	12.7	14.5	27.1	2.9	14.0	4.9	4.7
Deleum	Dec	BUY	0.87	1.22	42.1	57.6	66.5	10.5	14.3	16.6	146.8	36.7	15.5	8.2	6.0
Dialog Group	Jun	BUY	2.27	3.28	508.0	605.9	615.5	9.0	10.7	10.9	-6.5	19.3	1.6	25.2	21.1
Gas Malaysia	Dec	BUY	3.20	4.00	389.5	443.2	517.6	30.3	34.5	40.3	59.7	13.8	16.8	10.5	9.3
MMHE	Dec	BUY	0.59	0.81	67.8	96.8	179.2	4.2	6.1	11.2	-125.1	42.7	85.1	13.9	9.8
Petronas Chemicals	Dec	BUY	6.82	10.82	6,322.0	6,902.0	7,062.0	79.0	86.3	88.3	-13.9	9.2	2.3	8.6	7.9
Petronas Dagangan	Dec	BUY	20.66	24.52	776.6	922.2	1,062.7	78.2	92.8	107.0	46.7	18.7	15.2	26.4	22.3
Petronas Gas	Dec	BUY	16.50	18.43	1,645.4	2,031.3	2,127.8	83.2	102.7	107.5	-17.2	23.4	4.8	19.8	16.1
PROPERTY & REITS															
Al 'Aqar Healthcare REIT	Dec	BUY	1.35	1.38	60.1	76.8	75.5	8.2	10.2	10.0	-18.2	24.3	-1.7	16.5	13.3
Axis REIT	Dec	BUY	1.89	2.06	190.4	158.0	163.0	11.6	9.1	9.4	-15.8	-21.9	3.2	16.3	20.8
Eco World	Oct	BUY	0.72	0.87	157.2	284.0	282.0	5.3	9.6	9.6	-14.0	80.6	-0.7	13.4	7.4
Glomac	Apr	BUY	0.31	0.43	36.7	27.0	37.0	4.8	3.5	4.8	26.3	-27.1	37.1	6.6	9.0
IGB REIT	Dec	BUY	1.73	1.86	396.2	357.0	373.0	11.1	9.9	10.4	97.0	-10.0	4.5	15.7	17.4
IOI Prop	Jun	BUY	1.09	1.29	686.7	736.0	751.0	12.5	13.4	13.6	4.0	7.2	2.0	8.7	8.2
KLCCP Stapled	Dec	NEUTRAL	6.75	7.15	279.4	761.0	778.0	15.5	42.2	43.1	121.0	172.5	2.2	43.6	16.0
Mah Sing	Dec	BUY	0.60	0.75	180.1	206.6	235.1	6.5	8.5	9.7	48.1	30.9	13.8	9.2	7.0
Pavilion REIT	Dec	BUY	1.33	1.63	397.8	332.8	340.5	13.0	10.9	11.1	217.0	-16.5	2.3	10.2	12.2
S P Setia	Dec	BUY	0.60	0.84	308.1	302.0	325.0	7.6	7.4	8.0	8.1	-2.1	7.6	7.9	8.0
Sunway REIT	Dec	BUY	1.57	1.73	323.6	349.0	358.0	8.9	10.2	10.5	188.6	15.0	2.6	17.7	15.4
Sunway	Dec	NEUTRAL	1.58	1.64	676.7	600.5	617.0	10.7	12.3	12.6	-76.5	15.2	2.7	14.8	12.9
UEM Sunrise	Dec	NEUTRAL	0.25	0.25	80.5	60.0	67.1	1.6	1.2	1.3	-137.9	-25.4	11.8	15.7	21.1
UOA Development	Dec	NEUTRAL	1.66	1.65	219.9	208.0	211.9	9.3	8.6	8.8	-7.4	-7.2	1.9	17.8	19.2
TRANSPORT															
- Aviation															
Capital A	Dec	BUY	0.73	0.91	-2,480.1	-454.0	491.9	-61.2	-10.9	11.8	-22.5	-82.2	-208.3	n.a.	n.a
Malaysia Airports	Dec	NEUTRAL	6.66	7.35	129.7	348.8	557.6	7.8	21.0	33.6	-115.7	168.8	59.9	85.2	31.1
-Logistics															
CJ Century Logistics	Dec	BUY	0.49	0.98	28.2	35.7	43.1	4.8	6.1	7.4	320.0	27.0	20.7	10.0	7.9
Suria Capital	Dec	BUY	1.22	1.30	59.5	52.6	54.3	17.2	15.2	15.7	50.6	-11.6	3.2	7.1	8.0
Swift Haulage	Dec	BUY	0.48	0.90	50.5	54.3	59.5	5.7	6.2	6.8	-23.4	8.3	9.6	8.3	7.7
Tasco	Mar	BUY	0.86	1.87	65.2	89.4	93.4	8.2	11.2	11.7	58.1	36.9	4.5	10.5	7.7
- Ports															
Westports	Dec	NEUTRAL	3.55	3.90	699.6	704.8	768.7	20.5	20.7	22.5	-13.4	0.7	9.1	17.3	17.2
- Shipping															
MISC	Dec	BUY	7.16	8.16	1,822.9	2,512.3	2,603.2	40.8	56.3	58.3	-0.5	37.9	3.6	17.5	12.7
UTILITIES															
Ranhill Utilities	Dec	BUY	0.47	0.70	96.7	42.9	39.8	7.5	3.3	3.1	187.7	-55.7	-7.2	6.3	14.1
Tenaga Nasional	Dec	NEUTRAL	9.40	10.00	3,463.3	4,693.7	4,829.7	60.4	81.6	83.9	-5.8	35.2	2.9	15.6	11.5
YTL Power	**Jun**	**BUY**	**0.85**	**1.12**	**1,207.4**	**608.8**	**661.4**	**14.9**	**7.5**	**8.2**	**-909.8**	**-49.6**	**8.6**	**5.7**	**11.**
AUTO															
Bermaz Auto	Apr	BUY	2.26	3.20	155.1	262.9	290.1	13.4	22.6	24.9	15.9	68.9	10.3	16.9	10.0
MBM	Dec	BUY	3.38	4.70	281.6	244.0	244.8	72.0	62.4	62.6	64.5	-13.3	0.3	4.7	5.4
Tan Chong	Dec	NEUTRAL	1.10	1.19	-51.1	38.3	16.1	-7.8	5.9	2.5	232.2	-174.9	-58.0	n.a.	18.1
UMW Holdings	Dec	BUY	3.69	5.28	484.9	447.5	443.8	41.5	38.3	38.0	43.4	-7.7	-0.8	8.9	9.6
BUILDING MATERIAL															
- Cement															
Malayan Cement	Jun	NEUTRAL	2.25	2.61	83.5	68.1	96.9	6.8	5.2	7.4	702.4	-23.8	42.3	33.0	43.3
- Timber															
Ta Ann	Dec	NEUTRAL	3.06	3.27	314.9	160.1	127.9	71.5	36.3	29.0	-0.8	-49.2	-20.1	4.3	8.4

Source: Company, MIDFR

R		DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
3F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22							High (RM)	Low (RM)
3	6.8	48.5	48.6	55.8	4.3	4.4	5.0	1.26	8.86	22.82	3.84	17.69	255.3	2,849.2	16.38	10.88
9	19.4	23.0	29.0	31.3	3.6	4.5	4.9	6.59	0.97	42.18	5.82	31.38	809.3	5,171.4	7.16	6.00
7	4.2	0.0	0.0	0.5	0.0	0.0	0.8	0.70	0.87	31.35	6.43	14.80	5,918.0	3,580.4	0.73	0.32
0	5.2	3.2	3.4	4.8	3.7	3.9	5.5	0.89	0.97	8.25	8.07	13.89	401.6	347.3	1.04	0.54
1	20.8	3.4	3.8	3.8	1.5	1.7	1.7	2.43	0.93	26.13	6.85	10.72	5,642.6	12,808.7	2.77	1.71
3	7.9	8.2	24.4	29.0	2.6	7.6	9.1	3.21	1.00	5.79	14.08	34.67	1,284.0	4,108.8	3.65	2.71
3	5.3	0.0	1.6	1.8	0.0	2.7	3.1	0.53	1.11	5.86	2.88	5.47	1,600.0	944.0	0.77	0.36
0	7.7	48.0	40.0	41.0	7.0	5.9	6.0	1.40	4.88	23.84	12.45	17.37	8,000.0	54,560.0	11.08	6.67
3	19.3	62.0	74.8	87.2	3.0	3.6	4.2	3.57	5.78	2.51	8.19	15.93	993.5	20,524.8	23.62	19.55
1	15.3	72.0	112.9	123.7	4.4	6.8	7.5	2.48	6.64	32.97	10.32	15.15	1,978.7	32,649.1	17.78	15.92
3	13.5	8.1	7.1	7.0	6.0	5.3	5.2	1.05	1.28	69.04	4.11	7.91	756.5	1,021.3	1.35	1.14
3	20.2	9.8	8.0	8.2	5.2	4.2	4.3	1.21	1.57	55.39	3.71	6.14	1,741.1	3,290.6	2.00	1.78
4	7.5	3.0	5.0	5.0	4.2	7.0	7.0	0.45	1.60	13.90	3.02	5.99	2,944.4	2,105.2	1.07	0.55
0	6.5	1.0	1.5	1.5	3.2	4.8	4.8	0.20	1.59	16.18	2.14	3.43	767.5	237.9	0.37	0.27
4	16.7	9.9	9.1	9.5	5.7	5.3	5.5	1.60	1.08	64.16	6.71	9.22	3,590.5	6,211.5	1.78	1.46
2	8.0	4.0	4.0	4.0	3.7	3.7	3.7	0.28	3.91	28.41	1.86	3.57	5,506.1	6,001.7	1.18	0.92
0	15.7	38.0	39.0	39.0	5.6	5.8	5.8	2.38	2.83	52.15	4.20	5.02	1,805.3	12,186.0	7.18	6.40
0	6.1	2.7	3.4	3.9	4.5	5.7	6.6	0.41	1.47	8.92	3.23	5.76	2,427.7	1,444.5	0.73	0.49
2	11.9	8.4	7.7	7.8	6.3	5.8	5.9	1.00	1.33	58.42	5.13	8.20	3,058.8	4,068.1	1.45	1.18
0	7.5	1.5	1.6	1.7	2.5	2.7	2.8	0.20	2.96	6.78	1.01	1.97	4,075.5	2,424.9	1.30	0.41
4	15.0	9.2	9.2	9.4	5.9	5.8	6.0	0.97	1.61	53.57	3.71	6.31	3,424.8	5,376.9	1.66	1.34
9	12.5	3.5	5.5	5.5	2.2	3.5	3.5	0.80	1.97	11.56	2.30	4.43	4,889.1	7,724.7	1.85	1.45
1	18.8	0.5	0.5	0.5	2.0	2.0	2.0	0.19	1.34	4.07	0.46	0.87	5,058.5	1,264.6	0.36	0.19
2	18.9	10.0	10.0	10.0	6.0	6.0	6.0	0.70	2.39	46.05	3.22	3.52	2,407.4	3,996.4	1.92	1.52
.	6.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.52	-1.39	-6.87	-2.27	4.82	4,163.4	3,018.4	0.88	0.56
7	19.8	0.0	9.0	15.0	0.0	1.4	2.3	1.72	3.87	11.15	1.79	4.70	1,659.2	11,050.2	7.29	5.40
9	6.5	0.0	1.0	1.5	0.0	2.1	3.1	0.64	0.76	3.84	4.65	8.02	581.9	282.2	0.70	0.44
0	7.8	1.5	5.3	5.5	1.2	4.3	4.5	0.36	3.41	17.38	3.54	4.46	345.8	421.9	1.29	0.99
7	7.0	1.0	1.8	2.0	2.1	3.8	4.2	0.64	0.75	8.42	3.49	8.25	881.2	418.6	0.82	0.43
7	7.4	1.0	3.0	4.0	1.2	3.5	4.7	1.20	0.72	6.03	6.51	15.28	800.0	688.0	1.23	0.77
2	15.7	14.4	0.2	0.2	4.0	0.0	0.0	3.70	0.96	34.06	13.34	21.52	3,410.0	12,105.5	4.12	3.04
7	12.3	33.0	0.0	0.0	4.6	0.0	0.0	0.85	8.39	18.12	4.01	6.56	4,463.7	31,960.4	7.92	6.53
1	15.2	0.3	2.3	2.3	0.6	4.9	4.9	0.78	0.60	2.48	1.31	4.48	1,288.6	605.7	0.55	0.35
5	11.2	46.0	41.6	42.8	4.9	4.4	4.6	0.92	10.20	9.23	2.28	7.70	5,753.1	54,078.9	10.00	7.89
3	**10.4**	**4.5**	**4.5**	**5.7**	**5.3**	**5.3**	**6.7**	**0.49**	**1.75**	**3.42**	**1.19**	**4.33**	**8,102.2**	**6,886.8**	**0.92**	**0.66**
0	9.1	6.3	15.8	17.4	2.8	7.0	7.7	3.72	0.61	11.31	16.85	38.20	1,165.6	2,634.3	2.30	1.66
4	5.4	0.0	25.0	25.1	0.0	7.4	7.4	0.64	5.26	10.57	9.66	10.41	390.9	1,321.2	3.82	2.89
7	44.5	1.5	3.0	3.0	1.4	2.7	2.7	0.25	4.48	1.25	0.75	1.32	652.0	717.2	1.25	1.01
5	9.7	14.2	15.3	15.2	3.8	4.1	4.1	0.99	3.72	2.83	3.60	6.27	1,168.3	4,311.0	4.04	2.77
3	30.4	0.0	0.0	0.0	0.0	0.0	0.0	0.51	4.42	2.52	0.65	1.18	1,310.2	2,948.0	2.95	1.84
4	10.5	10.0	25.0	15.0	3.3	8.2	4.9	0.76	4.02	7.32	5.73	8.22	440.5	1,347.8	6.75	3.03

Table ii: Performance of various markets in Local Currency (% change)

In Local Currency	Index point	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23*
Taiwan Weighted	15,830.31	23.7%	-2.9%	-16.2%	-9.5%	5.3%	-22.4%	12.0%
KOSPI	2,409.22	3.6%	-7.4%	-15.4%	-7.6%	3.8%	-24.9%	7.7%
Nikkei 225	27,476.87	4.9%	-3.4%	-5.1%	-1.7%	0.6%	-9.4%	5.3%
Shanghai Composite	3,251.40	4.8%	-10.6%	4.5%	-11.0%	2.1%	-15.1%	5.2%
Philippines Composite	6,595.03	-0.2%	1.1%	-14.5%	-6.7%	14.4%	-7.8%	0.4%
Straits Times	3,239.03	9.8%	9.1%	-9.0%	0.9%	3.9%	4.1%	-0.4%
Hang Seng	19,567.69	-14.1%	-6.0%	-0.6%	-21.2%	14.9%	-15.5%	-1.1%
Jakarta Composite	6,708.93	10.1%	7.4%	-2.3%	1.9%	-2.7%	4.1%	-2.1%
Dow Jones	32,432.08	18.7%	-4.6%	-11.3%	-6.7%	15.4%	-8.8%	-2.2%
SET Index	1,593.37	14.4%	2.3%	-7.5%	1.4%	5.0%	0.7%	-4.5%
Mumbai Sensex 30	57,653.86	22.0%	0.5%	-9.5%	8.3%	5.9%	4.4%	-5.2%
FBM KLCI	**1,396.60**	**-3.7%**	**1.3%**	**-9.0%**	**-3.4%**	**7.2%**	**-4.6%**	**-6.6%**

Source: Bloomberg
*as at 27th March 2023

Table iii: Performance of various markets in US dollar (% change)

In US Dollar	Index point	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23*
Taiwan Weighted	15,830.31	23.7%	-6.1%	-19.3%	-15.2%	8.8%	-30.1%	13.3%
Shanghai Composite	3,251.40	4.8%	-10.4%	-1.1%	-16.2%	5.4%	-21.8%	5.5%
Nikkei 225	27,476.87	4.9%	-8.4%	-15.0%	-7.9%	11.1%	-20.3%	4.8%
KOSPI	2,409.22	3.6%	-9.1%	-20.3%	-17.2%	18.1%	-29.2%	4.7%
Philippines Composite	6,595.03	-0.2%	-0.3%	-19.4%	-12.8%	20.6%	-15.5%	3.3%
Jakarta Composite	6,708.93	10.1%	6.8%	-6.0%	-0.3%	-4.3%	-4.2%	0.5%
Straits Times	3,239.03	9.8%	8.6%	-11.3%	-2.4%	11.4%	4.8%	0.2%
Hang Seng	19,567.69	-14.1%	-6.4%	-0.8%	-21.2%	15.6%	-15.5%	-1.7%
Dow Jones	32,432.08	18.7%	-4.6%	-11.3%	-6.7%	15.4%	-8.8%	-2.2%
SET Index	1,593.37	14.4%	2.5%	-12.8%	-5.4%	14.6%	-3.2%	-3.9%
Mumbai Sensex 30	57,653.86	22.0%	-1.3%	-12.9%	5.1%	4.3%	-5.9%	-4.6%
FBM KLCI	**1,396.60**	**-3.7%**	**0.0%**	**-13.0%**	**-8.3%**	**12.9%**	**-9.9%**	**-6.4%**

Source: Bloomberg
*as at 27th March 2023

APPENDIX

Table iv: Performance by sectors (% change)

	Index point	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23*
Property	685.44	-4.2%	1.8%	-11.1%	-3.8%	4.6%	-8.9%	6.9%
Construction	160.02	-17.6%	4.8%	-3.7%	-1.6%	-0.1%	-0.8%	4.9%
Transport & Logistics	898.98	8.3%	-0.9%	-5.3%	-3.7%	10.8%	0.2%	4.2%
Reits	794.23	-5.0%	-0.5%	1.6%	-4.2%	0.8%	-2.4%	2.7%
Energy	792.95	-21.5%	1.9%	-3.3%	-3.4%	15.8%	10.3%	2.2%
Utilities	886.92	-11.6%	-1.7%	-3.1%	-0.1%	5.7%	0.6%	1.8%
Healthcare	1,769.69	-34.6%	-9.3%	-20.9%	-11.9%	17.9%	-25.5%	1.6%
Telecommunications & Media	584.56	-2.5%	0.8%	-14.1%	-0.4%	6.3%	-8.3%	-0.8%
Technology	61.25	38.6%	-19.9%	-19.2%	-2.6%	4.2%	-34.3%	-3.5%
Consumer Products & Services	564.71	-4.5%	0.5%	-4.0%	-1.2%	6.4%	1.5%	-3.7%
Plantation	6,656.72	-10.3%	21.4%	-13.2%	-6.2%	9.4%	8.1%	-6.0%
Financial Services	15,422.50	1.6%	7.8%	-4.7%	-0.4%	3.6%	6.0%	-6.5%
Industrial Products & Services	165.96	13.8%	1.3%	-11.6%	-6.5%	7.0%	-10.3%	-8.7%
FBM Small Cap	15,071.04	1.3%	3.4%	-12.6%	-3.6%	8.8%	-5.3%	1.0%
FBM Emas	10,234.02	-3.9%	0.7%	-9.5%	-3.2%	7.3%	-5.4%	-4.4%
FBM 100	9,930.41	-4.2%	0.5%	-9.2%	-3.2%	7.1%	-5.4%	-4.7%
FBM KLCI	1,396.60	-3.7%	1.3%	-9.0%	-3.4%	7.2%	-4.6%	-6.6%

Source: Bloomberg
*as at 27th March 2023

Table v: Regional earnings and valuations

	EPS Growth (% change)					PER				
	2021	2022 (est as of)		2023 (f'cast as of)		2021	2022 (est as of)		2023 (f'cast as of)	
		Dec-22	Mar-23	Dec-22	Mar-23		Dec-22	Mar-23	Dec-22	Mar-23
Nikkei 225	-16.0%	24.5%	14.9%	-1.6%	4.7%	18.6	14.2	16.2	14.4	15.5
Taiwan Weighted	-8.1%	11.7%	-15.7%	-16.1%	18.7%	13.1	10.4	15.5	12.4	13.0
Hang Seng	5.2%	-34.0%	-24.8%	13.5%	10.4%	7.1	10.8	9.4	9.5	8.5
FBM KLCI	**-8.8%**	**8.1%**	**15.0%**	**11.2%**	**5.5%**	**14.7**	**14.5**	**12.8**	**13.1**	**12.1**
Jakarta Comp.	70.2%	-9.3%	-3.7%	4.2%	9.8%	13.0	14.6	13.5	14.0	12.3
SET Index	19.7%	-10.0%	-9.2%	6.0%	10.2%	14.0	16.3	15.4	15.4	14.0
Philippines Comp.	27.4%	2.8%	18.4%	12.7%	9.7%	15.3	14.8	12.9	13.1	11.7
Shanghai Comp.	-3.0%	22.9%	36.2%	13.7%	13.9%	14.7	11.3	10.8	10.0	9.4
Straits Times	23.1%	-3.1%	8.1%	11.5%	4.1%	11.5	12.0	10.7	10.7	10.3
Mumbai Sensex 30	14.1%	2.3%	-0.1%	18.2%	21.8%	21.7	22.4	21.7	18.9	17.8
DJIA	-5.7%	4.7%	8.9%	10.6%	13.7%	18.7	18.2	17.2	16.5	15.1

Source: Bloomberg
*as at 27th March 2023

Table vi: Performance of MIDFR's stocks under coverage

OUT-PERFORMERS	Share Price (RM)		% Change	TP
	27/3/2023	31/12/2022		
Muhibbah	0.70	0.50	40.0%	0.47
Bumi Armada	0.61	0.48	26.0%	0.80
Kossan	1.31	1.08	21.9%	0.95
FGV	1.60	1.32	21.2%	1.38
Fraser & Neave	25.50	21.28	19.8%	33.50
YTL Power	0.85	0.72	18.9%	1.12
Capital A	0.73	0.63	16.0%	0.91
Gabungan AQRS	0.30	0.26	15.4%	0.44
Eco World	0.72	0.63	14.4%	0.87
Padini	3.79	3.33	13.9%	4.40
Hartalega	1.93	1.70	13.5%	1.80
Pavilion REIT	1.33	1.17	13.5%	1.63
Gamuda	4.17	3.69	12.9%	5.04
Al-'Aqar Healthcare	1.35	1.20	12.5%	1.38
KPJ	1.13	1.01	12.4%	1.48
Sunway REIT	1.57	1.42	11.0%	1.73
MRCB	0.33	0.30	10.2%	0.40
Suria Capital	1.22	1.12	9.4%	1.30
Unisem	3.00	2.74	9.4%	3.72
MBM	3.38	3.10	8.9%	4.70
Sunway Construction	1.67	1.54	8.7%	2.00
CelcomDigi	4.28	3.97	7.8%	4.11
Top Glove	0.97	0.91	7.2%	0.55
Leong Hup	0.53	0.50	7.1%	0.90
UMW Holdings	3.69	3.47	6.3%	5.28
IGB REIT	1.73	1.63	6.3%	1.86
Malayan Cement	2.25	2.12	6.1%	2.61
Bermaz Auto	2.26	2.13	6.1%	3.20
Spritzer	2.35	2.22	5.9%	2.80
Axis REIT	1.89	1.79	5.7%	2.06
Mah Sing	0.60	0.57	5.3%	0.75
KKB Engineering	1.40	1.34	4.5%	1.50
Ranhill Utilities	0.47	0.45	4.4%	0.70
QL Resources	5.70	5.48	4.1%	6.80
Maxis	3.94	3.79	3.9%	3.60
WCT	0.42	0.40	3.7%	0.58
Rhong Khen International	1.41	1.36	3.7%	1.35
UOA Development	1.66	1.61	3.1%	1.65
IOI Prop	1.09	1.06	2.8%	1.29
KLCCP Stapled	6.75	6.58	2.6%	7.15
CJ Century Logistics	0.49	0.48	2.1%	0.98
Cahya Mata Sarawak	1.09	1.07	1.9%	1.55
Astro	0.66	0.65	1.5%	0.89
S P Setia	0.60	0.59	1.5%	0.84
Malaysia Airports	6.66	6.56	1.5%	7.35
Sarawak Plantation	2.14	2.11	1.4%	2.60
MMHE	0.59	0.58	1.4%	0.81
Swift Haulage	0.48	0.47	1.1%	0.90
Hup Seng	0.71	0.71	0.7%	0.88
Gas Malaysia	3.20	3.18	0.6%	4.00
Malayan Banking	8.44	8.40	0.5%	8.94
Deleum	0.87	0.87	-0.6%	1.22
Dialog Group	0.87	0.87	-0.6%	3.28
IJM Corp	1.58	1.60	-1.3%	1.90
Asia File	1.71	1.74	-1.7%	1.60
YTL Corp	0.57	0.58	-1.7%	0.83
Hong Leong Bank	19.98	20.35	-1.8%	24.90
UEM Sunrise	0.25	0.26	-2.0%	0.25
Affin Bank	1.99	2.03	-2.0%	2.11
Bursa Malaysia	6.39	6.54	-2.2%	7.30
Axiata	2.97	3.04	-2.3%	4.54
Petronas Gas	16.50	16.89	-2.3%	18.43
D & O Green Tech	4.18	4.28	-2.3%	5.10
Tenaga Nasional	9.40	9.63	-2.4%	10.00
Sunway	1.58	1.62	-2.5%	1.64
Hong Leong Financial	17.90	18.43	-2.8%	24.79
MISC	7.16	7.38	-3.0%	8.16
Glomac	0.31	0.32	-3.1%	0.48
Nestlé	134.70	140.00	-3.8%	139.50
KL Kepong	20.70	21.55	-3.9%	26.00
AEON Co.	1.31	1.37	-4.4%	1.90
Tasco	0.86	0.90	-4.4%	1.87
Westports	3.55	3.73	-4.7%	3.90
Media Prima	0.40	0.42	-4.8%	0.60

Source : MIDF, Bloomberg (as at 27th March 2023)

Table vi: Performance of MIDFR's stocks under coverage (Cont'd)

Genting Plantations	5.89	6.20	-5.0%	6.16
PPB Group	16.54	17.44	-5.2%	24.10
Globetronics	1.08	1.14	-5.2%	1.31
MSM	0.81	0.85	-5.3%	0.83
Datasonic	0.43	0.46	-5.5%	0.57
RHB Bank	5.45	5.79	-5.9%	6.74
IOI Corp	3.73	3.99	-6.5%	5.40

UNDER-PERFORMERS	**Share Price (RM)**		**% Change**	**TP**
	27/3/2023	31/12/2022		
Pharmaniaga	0.29	0.55	-47.7%	0.48
Bank Islam	2.15	2.73	-21.2%	2.99
Ta Ann	3.06	3.78	-19.0%	3.27
Petronas Chemicals	6.82	8.41	-18.9%	10.82
My E.G.	0.72	0.86	-16.5%	1.00
AMMB	3.55	4.14	-14.3%	5.24
Pintaras Jaya	1.81	2.08	-13.0%	2.43
AEON Credit	11.16	12.58	-11.3%	15.00
Telekom Malaysia	4.74	5.32	-10.9%	6.60
Sime Darby Plantation	4.16	4.65	-10.5%	5.50
Alliance Bank	3.29	3.67	-10.4%	4.26
CIMB	5.16	5.66	-8.9%	6.55
Public Bank	3.89	4.27	-8.8%	5.08
Petronas Dagangan	20.66	22.57	-8.5%	24.52
IHH Healthcare	5.74	6.22	-7.7%	6.91
TSH Resources	1.00	1.07	-7.0%	1.01
Inari Amertron	2.41	2.59	-6.8%	3.00
Tan Chong	1.10	1.18	-6.8%	1.19
FBM KLCI	**1,396.60**	**1,495.49**	**-6.6%**	**1,590.00**

Source : MIDF, Bloomberg (as at 27th March 2023)

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	*Negative* total return is expected to be -10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.



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